Top Picks

Our Highest-Conviction Calls with Catalysts

Equities

Americas

High conviction ideas in a volatile market

UBS Equity Strategy recently raised the year-end S&P 500 target to 4,400 with a view for further upside to 4,650 by the end of 2022 (link). While the market will need to overcome three peaks to move higher (earnings growth, economic growth, and liquidity), we believe equities can perform. When earnings growth has decelerated but remained 10%+ y/y, equities have historically delivered 10% annualized returns.

Catalysts on the way as earnings should beat

Despite near-term consolidation, we see room for market gains into Q2 earnings season as the market appears to underestimate the strength of US earnings (we expect a 15%+ beat in Q2). We believe this backdrop of consolidation ahead of coming events presents significant single-stock opportunities. In this note, we present our highest-conviction stock calls along with the catalysts we expect to drive returns.

Pivotal questions answered

For each stock on this high-conviction list, our analysts present: (1) the pivotal questions driving the stock; (2) the UBS view of what the market might be missing; (3) key evidence that we've uncovered; (4) what's priced in by current market expectations; (5) our view of the upside vs downside skew, and; (6) key upcoming catalysts.

Keith Parker
Strategist
keith-j.parker@ubs.com
+1-212-713 3296

Joseph Parkhill
Product Manager
joseph.parkhill@ubs.com
+1-212-713 3716

Peter Lennox-King
Product Manager
peter.lennox-king@ubs.com
+1-212-713 3215

Kenneth Ling
Product Manager
kenneth.ling@ubs.com
+1-212-713 9413

Alastair Pinder
Strategist
alastair.pinder@ubs.com
+1-212-713 3430

Sean Simonds
Associate Strategist
sean.simonds@ubs.com
+1-212-713 2851

	Ticker	Analyst	Rating	UBS Price Target	Return vs UBS PT
Basic Materials	IFF	John Roberts	Buy	$184	30%
	SCCO	Andreas Bokkenheuser	Sell	$65	-3%
	BERY	Josh Spector	Buy	$83	21%
	IP	Cleve Rueckert	Sell	$44	-31%
Capital Goods & Industrials	RTX	Myles Walton	Buy	$96	11%
	FDX	Tom Wadewitz	Buy	$383	24%
	SPGI	Alex Kramm	Buy	$445	18%
	GE	Markus Mittermaier	Buy	$17	30%
	TEL	Chris Snyder	Buy	$155	16%
	PWR	Steven Fisher	Buy	$120	28%
Consumer	UAL	Myles Walton	Buy	$67	18%
	STZ	Sean King	Buy	$256	8%
	MDLZ	Sean King	Buy	$67	5%
	DLTR	Michael Lasser	Buy	$130	22%
	MCD	Dennis Geiger	Buy	$260	12%
	ULTA	Michael Lasser	Buy	$380	18%
	LB	Jay Sole	Buy	$102	53%
Energy	GNRC	Jon Windham	Buy	$390	25%
	SRE	Dan Ford	Buy	$174	28%
	SU-TSE	Lloyd Byrne	Buy	C$39	40%
	PAA	Shneur Gershuni	Buy	$16	53%
	DVN	Lloyd Byrne	Buy	$33	28%

	Ticker	Analyst	Rating	UBS Price Target	Return vs UBS PT
Financial Institutions	BPOP	Brock Vandervliet	Buy	$97	23%
	C	Saul Martinez	Buy	$98	27%
	MS	Brennan Hawken	Buy	$98	10%
	NDAQ	Alex Kramm	Buy	$190	16%
	RGA	Meredith & Ward	Buy	$150	22%
	WRB	Brian Meredith	Buy	$90	17%
	PLD	Brent Dilts	Buy	$143	21%
Healthcare	DNLI	Esther Rajavelu	Buy	$70	8%
	ARVN	Eliana Merle	Buy	$123	89%
	CCCC	Colin Bristow	Buy	$60	73%
	DGX	Kevin Caliendo	Buy	$158	21%
	CTLT	Dan Brennan	Buy	$138	33%
	DXCM	Matt Taylor	Buy	$500	42%
Technology, Media & Telecom	TMUS	John Hodulik	Buy	$170	24%
	SBAC	Batya Levi	Buy	$350	17%
	UBER	Ben Miller	Buy	$75	49%
	AAPL	David Vogt	Buy	$155	22%
	DIS	John Hodulik	Buy	$215	22%
	MU	Tim Arcuri	Buy	$120	48%
	MSFT	Karl Keirstead	Buy	$300	19%
	ANET	David Vogt	Buy	$370	9%

Source: Factset, UBS

Contents

Keith Parker
Strategist
keith-j.parker@ubs.com
+1-212-713 3296

Joseph Parkhill
Product Manager
joseph.parkhill@ubs.com
+1-212-713 3716

Peter Lennox-King
Product Manager
peter.lennox-king@ubs.com
+1-212-713 3215

Kenneth Ling
Product Manager
kenneth.ling@ubs.com
+1-212-713 9413

Alastair Pinder
Strategist
alastair.pinder@ubs.com
+1-212-713 3430

Sean Simonds
Associate Strategist
sean.simonds@ubs.com
+1-212-713 2851

Figure 1: High-Conviction Picks by Category

	Sector	Company Name	Ticker	Analyst	Rating	UBS Price Target	5/25/2021 Price	Return vs UBS PT
Basic Materials	Chemicals	Int'l Flavors & Fragrances	IFF	John Roberts	Buy	$184	$141.62	30%
	Metals & Mining	Southern Copper	SCCO	Andreas Bokkenheuser	Sell	$65	$66.99	-3%
	Paper & Packaging	Berry Global	BERY	Josh Spector	Buy	$83	$68.37	21%
	Paper & Packaging	International Paper Co	IP	Cleve Rueckert	Sell	$44	$63.58	-31%
Capital Goods & Industrials	Aerospace & Defense Electronics	Raytheon Technologies	RTX	Myles Walton	Buy	$96	$86.26	11%
	Airfreight & Surface Transportation	FedEx Corp	FDX	Tom Wadewitz	Buy	$383	$308.59	24%
	Business, Education & Professional Svs	S&P Global	SPGI	Alex Kramm	Buy	$445	$378.59	18%
	Electrical Equipment & Multi-Industry	General Electric	GE	Markus Mittermaier	Buy	$17	$13.12	30%
	Electrical Equipment & Multi-Industry	TE Connectivity	TEL	Chris Snyder	Buy	$155	$133.94	16%
	Machinery, Engineering & Construction	Quanta Services	PWR	Steven Fisher	Buy	$120	$93.82	28%
Consumer	Airlines	United Airlines	UAL	Myles Walton	Buy	$67	$56.98	18%
	Beverage, Household & Personal Care	Constellation Brands	STZ	Sean King	Buy	$256	$237.94	8%
	Food Producers	Mondelez International	MDLZ	Sean King	Buy	$67	$63.71	5%
	Food Retailers	Dollar Tree	DLTR	Michael Lasser	Buy	$130	$106.98	22%
	Restaurants	McDonald's	MCD	Dennis Geiger	Buy	$260	$232.14	12%
	Retailing/Broadlines & Hardlines	Ulta Beauty	ULTA	Michael Lasser	Buy	$380	$320.99	18%
	Retailing/Department Stores & Softlines	L Brands	LB	Jay Sole	Buy	$102	$66.57	53%
Energy	Alternative Energy	Generac	GNRC	Jon Windham	Buy	$390	$312.90	25%
	Electric Utilities	Sempra Energy	SRE	Dan Ford	Buy	$174	$135.45	28%
	Integrated Oil	Suncor Energy	SU-TSE	Lloyd Byrne	Buy	C$39	C$27.89	40%
	Midstream & Natural Gas	Palins All American Pipeline	PAA	Shneur Gershuni	Buy	$16	$10.44	53%
	Oil & Gas Exploration & Production	Devon Energy	DVN	Lloyd Byrne	Buy	$33	$25.80	28%
Financial Institutions	Banks/Midcap	Banco Popular	BPOP	Brock Vandervliet	Buy	$97	$79.09	23%
	Banks/Large-Cap	Citigroup	C	Saul Martinez	Buy	$98	$77.28	27%
	Brokers, Asset Managers & Exchanges	Morgan Stanley	MS	Brennan Hawken	Buy	$98	$88.86	10%
	Brokers, Asset Managers & Exchanges	NASDAQ	NDAQ	Alex Kramm	Buy	$190	$164.31	16%
	Insurance/Life	Reinsuance Group America	RGA	Meredith & Ward	Buy	$150	$122.46	22%
	Insurance/Nonlife	W.R. Berkeley	WRB	Brian Meredith	Buy	$90	$76.81	17%
	REITs	Prologis	PLD	Brent Dilts	Buy	$143	$118.18	21%
Healthcare	Biotechnology/Mid- & Small-Cap	Denali Pharmaceuticals	DNLI	Esther Rajavelu	Buy	$70	$64.64	8%
	Biotechnology/Mid- & Small-Cap	Arvinas	ARVN	Eliana Merle	Buy	$123	$65.21	89%
	Biotechnology/Large-Cap	C4 Therapeutics	CCCC	Colin Bristow	Buy	$60	$34.70	73%
	Health Care Technology & Distribution	Quest Diagnostics	DGX	Kevin Caliendo	Buy	$158	$130.85	21%
	Life Science & Diagnostic Tools	Catalent	CTLT	Dan Brennan	Buy	$138	$103.45	33%
	Medical Supplies & Devices	DexCom	DXCM	Matt Taylor	Buy	$500	$353.25	42%
Technology, Media & Telecom	Cable, Satellite & Telecom Services	T-Mobile US	TMUS	John Hodulik	Buy	$170	$136.76	24%
	Communications Infrastructure	SBA Communications	SBAC	Batya Levi	Buy	$350	$298.74	17%
	Internet/Large-Cap	Uber Technologies	UBER	Ben Miller	Buy	$75	$50.46	49%
	IT Hardware & Electronics	Apple Inc	AAPL	David Vogt	Buy	$155	$126.90	22%
	Media	Walt Disney Co	DIS	John Hodulik	Buy	$215	$176.17	22%
	Semiconductors & Semi Equipment	Micron Technology	MU	Tim Arcuri	Buy	$120	$81.23	48%
	Software/Large-Cap	Microsoft	MSFT	Karl Keirstead	Buy	$300	$251.72	19%
	Telecom & Networking Equipment	Arista Networks	ANET	David Vogt	Buy	$370	$338.30	9%

Source: Factset, UBS

BASIC MATERIALS

Berry Global (BERY)

Buy ($83 Price Target)

Joshua Spector, [Joshua.spector@ubs.com;](mailto:Joshua.spector@ubs.com) John Roberts, john.roberts@ubs.com,

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can BERY sustain positive volume growth?
Yes, we believe BERY can deliver ~1% annual volume growth. Previous investments in new capacities in wipes/filtration materials (HHS segment – non-wovens) and product pivots in engineered materials provide for continued growth. And BERY has continued to innovate on product designs and recycled content products which continue to be a driver of growth.

Q: Will BERY be able to reduce leverage and deploy capital at the same time?
Yes, we model FY 2022 FCF of near $1.1B (~11% yield), and on this we model net debt/EBITDA declining to ~3.5x over the next year. In terms of capital allocation we model ~$700M in annual capex (more than half of which is growth spend). Over the next 18 months we also model another $350M of cash being deployed via buybacks ($100M), which could be used for M&A instead. And we model BERY initiating a dividend at a cost of ~$250M/yr, which at current trading would reflect a ~3% dividend yield.

UBS VIEW

We believe the combination of de-leveraging, LSD % volume growth and a modest re-rating could drive significant equity upside. BERY trades in line with its average EV/EBITDA multiple and a ~20% discount to its average relative to the S&P 500. We believe the discount reflects higher leverage near-term (~3.9x ND/EBITDA) and market concerns about sustainability and growth. We model leverage declining to ~3.3x by end FY22e, and believe prior capacity investments and growth synergies from RPC acquisition (now large presence in both N.A. & Europe) provide growth in the medium-term.

EVIDENCE

Consultants forecast ~3% packaging industry growth with rigid & flexible plastics growth above this level. Plastic packaging replacements could weigh ~4.5x more and, consume more than ~2x the amount of energy used in plastics. ~55% of Berry's sales are into health/medical & specialty end markets where there aren't many viable alternatives. Investments in recycling ops and agreements for circular resins (adv. recycling) secure recycled content, which could result in share gain with recycled content products.

WHAT'S PRICED IN?

With BERY trading ~5% below its absolute average multiple and ~20% below its average multiple relative to the S&P 500, we think the market is pricing in concerns about BERY's ability to persistently grow volumes due to execution and sustainability concerns.

RELATED RESEARCH

Raising ests & PT; Resin headwinds overdone; Sustainability risks overdone – expert call; Initiate Buy

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	FYSep22e volume growth	FYSep22e EBITDA margins	FYSep22e EBITDA ($ mil)	FYSep22e dist. FCF ($ mil)	FYSep22e EPS
$101 upside	1%	~18.5%	$2,430M	$1,120M	$7.00
$83 target	0.5%	17.7%	$2,334M	$1,089M	$6.45
$55 downside	-2%	~16.5%	$2,100M	$965M	$5.20

Source: UBS

UPCOMING CATALYSTS

JunQ21 earnings in late July (continued organic growth momentum), moving below top end of ND/EBITDA target ratio (3.8x-3.9x) by end of SepQ21 with potential initiation of capital return actions (initiation of dividend or increased share repurchases). Nov 2021 will provided outlook for FY22.

Intl. Flavors & Fragrances (IFF)

Buy ($184 Price Target)

John Roberts, john.roberts@ubs.com, Joshua Spector, Joshua.spector@ubs.com

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can IFF generate organic sales growth of ~4-5% through 2023?
Yes, we believe IFF can deliver organic growth of ~4% per annum through 2023. We view the initial revenue synergy target of $400M through 2023 (~3.6% of 2020 PF sales) as achievable and likely to increase. This equates to ~1% per annum. We view the remaining ~3% per annum to be delivered by base business growth across legacy IFF and the N&B portfolio as conservative given the expected rebound from pandemic impacted 2020 in Fine Fragrance and Food Service, and given the base portfolio has traditionally grown at or above GDP levels (UBSe ~5.7% GDP growth next 2 years).

Q: Can IFF continue to expand margins?
Yes, we believe EBITDA margins can increase by ~370 bps over the next 3 years to ~25.8%. Margin expansion is driven by high incremental margins (>30%) coupled with volume growth, and uplift from cost synergies associated with N&B integration, expected to add ~270bps to 2020 PF margins.

UBS VIEW

We believe we are on the verge of a period of higher organic growth for IFF. This is driven initially by a recovery in the pandemic impacted Fine Fragrance and Food Service markets followed by a combination of revenue synergies and sustained market growth. The combination of ~4% organic growth, margin uplift from op. leverage and cost synergies (+270bps), and deleveraging could drive a re-rating closer to food ingredient peers. IFF currently trades at ~25% discount to peers, which we believe reflects market concerns about achieving organic growth and synergy targets given issues following the earlier FRUT acquisition. However, we believe the narrative will shift, and the stock can re-rate as IFF delivers on organic growth & synergy targets.

EVIDENCE

IFF has historically generated organic growth at or above GDP levels (2016-19 3.4% vs. 3.5%). High incremental margins from op. leverage (>30%) & cost synergies (+270bps to margins) to drive margin expansion, resulting in EBITDA growth ~2.3x organic sales growth levels.

WHAT'S PRICED IN?

IFF is trading at a ~25% discount to peers (Givaudan, Symrise, Kerry, DSM, Novozymes). We think the market is pricing in concerns about IFF's ability to grow the base business organically and deliver on integration synergies, as higher growth become apparent, we expect the discount to peers to close.

RELATED RESEARCH

IFF Top Pick for 2021, Upside to New IFF, How will customers respond?, New PF IFF Segments

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2022e Org. Growth %	2022e EBITDA Margin %	2022e EBITDA ($ mil)	NTM EBITDA Multiple
$225 upside	6.0%	~26%	$3,210M	20.0x
$184 target	4.0%	~24.6%	$3,036M	18.5x
$110 downside	1.0%	~21%	$2,510M	14.0x

Source: UBS

UPCOMING CATALYSTS

JunQ21 earnings in late July with continued organic growth momentum, rebound in Fine Fragrance & Food Service & on trend with cost synergies especially for 2021.

International Paper Company (IP)

Sell ($44 Price Target)

Cleve Rueckert, cleve.rueckert@ubs.com, +1-212-713-4913

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Does the industry support margin expansion for IP's container board business?
No. We expect oversupply and slowing demand growth will result in 5% lower containerboard prices by 2022 from 2021 while input costs are rising. New containerboard mills ramping up and others under construction will increase supply by 7% and enter the already oversupplied market with a competitive cost profile. Pricing weakness drives our forecast for a 400bps margin decline to 17% by 3Q22 from a 3Q21 peak.

Q: Is corrugated box demand growth sustainable?
No. Demand is up 5-10% y/y in 1H21, but volumes are flat with 4Q20. As eCommerce growth slows and supply chains rebalance we do not expect corrugated box demand growth is sustainable through the second half of 2021. We expect market growth of 1-1.5% through 2025 as temporary factors slow.

UBS VIEW

Competition is increasing for IP's containerboard business, which represents 80% of EBITDA. Planned 7% capacity additions ramping up in a 1.2% demand growth market will result in oversupply. Moreover, we think OCC prices could fall in the second half, which enhances competitiveness of substitute products, leading to pricing pressure. We expect containerboard prices to fall 5% in 2022, resulting in a 400bps peak to trough margin decline and 2022 EBITDA below consensus expectations.

EVIDENCE

OCC prices lead containerboard by 6-12 months, based on our analysis. China has banned OCC imports, where the US shipped ~15% of 2020 recoveries. US containerboard exports trade at a 35% avg discount to domestic, yet 15% of production is exported. Channel checks with industry experts cite strong demand from inventory restocking and eCommerce.

WHAT'S PRICED IN?

On our estimates IP is pricing in US$825/st US kraftliner, in line with the current spot and above our $750/st expectation for 2022.

RELATED RESEARCH

Capacity Additions Restrict Pricing Upside; Initiate with Sell Rating

UBS Paper Cut: US OCC Export & China Containerboard Prices Falling

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Packaging Realized Pricing	Packaging Volume	Other EBITDA (y/y)	EV/EBITDA multiple
$75 upside	1.0%	1.5%	0.0%	8.5x
$44 base	0.1%	-2.6%	-43.6%	6.5x
$36 downside	-1.0%	-3.0%	-50.0%	6.0x

Source: UBS

UPCOMING CATALYSTS

Increasingly difficult y/y industry comparisons starting in May/June. Slowing eCommerce growth expected in 2H21.

Southern Copper (SCCO)

Sell ($65 Price Target)

Andreas Bokkenheuser, andreas.bokkenheuser@ubs.com, +1-212-713-9095

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: How is demand growth tracking for SCCO's primary copper products?
Still positive but starting to decelerate. China accounts for ~50% of global copper consumption where pent up demand drove offtake to grow almost 30% y/y in 2H20. However, this has decelerated to 6% y/y. From here, Chinese demand growth should settle back closer to 3-5% normal growth levels, in our view, as vaccine rollouts moves consumer preferences back towards services from goods into 2H21 weighing on pent-up demand. UBS Evidence Lab Copper Projector estimates mid-cycle 3% y/y by mid-year from 6% currently.

Q: How are buyer inventory levels tracking for copper?
Inventories are rising. Chinese visible bonded inventories are up over 60% from last year's low COVID base. Moreover, non-visible inventories may be rising as illustrated in Figure 5 above, according to Shanghai Metals Market (SMM).

UBS VIEW

We recently downgraded SCCO to Sell from Neutral in anticipation of a rebalancing of the copper market into 2H21. This is driven by a demand growth deceleration in China and RoW coupled with a normalization in supply, hereunder South American Concentrate and global scrap supply. We estimate copper prices will correct from US$4.55/lb spot currently to US$3.50/lb by 4Q21 followed by US$3.30/lb in 2022.

EVIDENCE

1. Chinese copper demand growth has decelerated from ~30% to 6% (3MMAvg) over the past six months. 2. China bonded inventories are up over 60% since the COVID-trough coupled with rising smelter inventories.

WHAT'S PRICED IN?

SCCO is pricing in a US$4.65/lb copper price, according to our estimates, versus our US$3.70/lb forecast into 2H21 and US$4.55/lb spot.

RELATED RESEARCH

Running Out of Steam? Downgrade SCCO to Sell

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Copper (US$/lb)	Revenue (US$m)	EBITDA (US$m)	EPS (US$/shr
$91 upside	4.50	10,123	6,580	4.27
$65 target	3.30	7,736	4,487	2.65
$50 downside	2.70	6,592	3,496	1.89

Source: UBS

UPCOMING CATALYSTS

1. Pent up demand in RoW fizzling out. 2. Chinese inventories continuously rising. 3. South American supply normalizing, all in 2H21-1H22.

CAPITAL GOODS - INDUSTRIALS

FedEx Corp (FDX)

Buy ($383 Price Target)

Tom Wadewitz, thomas.wadewitz@ubs.com, +1-917-648-4288

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can FDX realize strong pricing gains in CY2021 / CY2022?
Yes. Earnings performance and pricing actions taken by FDX and UPS show current pricing gains are strong. The combination of a cyclical upswing in B2B volumes + secular growth in ecommerce supports volume growth in CY2021 / CY2022 which supports continuing tightness and pricing in the US parcel market.

Q: Will FDX translate pricing gains into margin expansion in Ground and Express?
Yes. We believe stronger pricing is the most important lever for margin expansion in both Express and Ground while FDX should also benefit from lapping inefficiencies experienced during the sharp ramp in ecommerce / B2C volumes in CY2020.

UBS VIEW

We believe the combination of significantly stronger than normal pricing and a cyclical upturn in higher margin B2B volumes supports strong margin expansion in both FDX's Ground and Express businesses in CY2021 and CY2022. While FDX faces an eventual headwind from lower international airfreight rates (as passenger belly space on long haul routes returns), we expect medium term cost savings from partial integration of FDX's Express and Ground businesses and integration of TNT in Europe to provide a significant offset. We believe Consensus EPS estimates are meaningfully too low and we expect upside EPS to support a trend up in FDX stock. We also believe that delivering results for FDX can support a higher valuation. We derive our price target of $383 by applying a 17x P/E to our CY2022E EPS of $22.55/share.

EVIDENCE

FDX has translated a much tighter parcel market into strong pricing gains as shown by the 10.7% y/y growth in FedEx Ground revenue / piece in 3QF21 (Feb quarter). And it has also turned the strong pricing backdrop into significant margin expansion of 270 bp y/y in Ground in 1QF21. The recent announcement by FDX of a step up in peak surcharges shows a continued focus on price and also a tight parcel market.

WHAT'S PRICED IN?

On our rolling forward EPS estimates, FDX is trading at a P/E of ~15x. This is above the five year average of 13.7x which reflects the strong improvement momentum in FDX's package businesses. We believe the current valuation reflects improvement over the next few quarters.

RELATED RESEARCH

Surcharge Increases Point To Tight Market And Strong Package Pricing Trends; Debate Creates Opportunity: Why We Believe Upside Potential Is Compelling For FDX And UPS; Ground Margin Back On Track; Raising EPS Estimates;

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2022Revenue Growth (Y/Y)	2022 Oper. Ratio Change (y/y, bps)	Target P/E Multiple
$435 upside	10.0%	150	17.5x
$383 target	7.3%	110	17.0x
$246 downside	3.0%	20	13.3x

Source: UBS

UPCOMING CATALYSTS

4QF21 earnings report on June 24.

General Electric (GE)

Buy ($17 Price Target)

Markus Mittermaier, markus.mittermaier@ubs.com, +1-212-713-2716

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can GE achieve HSD+ FCF/sales conversion over the next 2-3 years?
Yes, we expect adj. Industrial FCF of $6.4B/$8.7B in '22/'23, implying ~8%/10% FCF/Sales. This is driven largely by inflections in Power & Aviation. We expect Power to generate >$1.5B FCF from 2022+ while Aviation FCF is expected to exceed 2019 levels by 2023 (UBSe $4.6B) as aftermarket recovers driven by a catch up in the "bread and butter" CFM56 platform and >100% cash conversion given the strong ramp in LEAP net cash contribution from ~$0.1B in 2020 to >$1B in 2025 (UBSe). Detailed models for both Power and Aviation are available upon request.

Q: Can Power segment margins expand to double digit territory?
Yes, by 2022+. Power is one of the most overlooked aspects of the turnaround as we expect margin expansion from LSD to LDD from 2022+, driven by substantial fixed cost reductions in both gas (announced) & steam (UBSe assumed) power and a mix shift towards higher margin services (UBSe contribution margins >40% on gas & >30% on steam). This should drive Power segment FCF of >$1.5B from 2022+.

UBS VIEW

We remain constructive on GE driven by continued portfolio simplification and the turnaround resulting in a simpler Industrial company with high single digit FCF/Sales number over the next ~2-3 years. We expect an above consensus FCF inflection over the next ~24 months due to self-help in power & renewables and a vaccine-levered recovery in aviation. We see continued simplification at GE, from pension de-risking (e.g. no more GE Pension Plan funding for the remainder of the decade, as we had written about already earlier this year) to further portfolio changes / evolution and a potential long-term care exit.

EVIDENCE

Our proprietary bottom up models of GE Aviation (starting with a unit economics model for engine shop visits), GE Power and GE Healthcare give us conviction in our operational forecasts. Our views on the turnaround progressing well are also supported by the UBS Evidence Lab data on CEO approval, employee sentiment and business outlook.

WHAT'S PRICED IN?

Consensus GE. Ind. FCF is ~$5.5B/$7B in '22/'23 (vs. UBSe $6B+/$8B+ resp.). We believe investors remain conservative on Power margin improvement with cons. estimates of ~4%-5% in 2022-23 (vs. UBSe 10%+).

RELATED RESEARCH

"Turnaround Master Class or Dead Cat Bounce" revisited; GE remains a top pick in 2021; Pension; LTC

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Adj. Industrial FCF (2023, $B)	Target FCF Yield (%)	FCF yield based Valuation ($)	SOTP ($)
$21 upside	$9.7B	5%	$21	$21
$17 target	$8.7B	5%	$19	$16
$9 downside	$5.8B	7%	$9	$10

Source: UBS

UPCOMING CATALYSTS

Global aviation traffic improvement; Power segment margin improvement trajectory, GECAS deal progress; UK pension freezing progress; any announcements regarding Insurance business future

Quanta Services, Inc. (PWR)

Buy (US$120 price target)

Steven Fisher, steven.fisher@ubs.com , +1 212-713 8634

UBS Research THESIS MAP

a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: How much growth is in store for PWR's Electric segment?
We expect PWR to generate significant revenue and earnings growth from the Electric segment going forward. We think the electric segment will be driven by steady growth in electric transmission and distribution as the grid needs upgrades to handle the coming wave of renewable generation and increased loads from mass electrification. We also expect a pick-up in system hardening, and accelerating growth in telecom as 5G is rolled out. We estimate electric segment profit growth of 11%/13%/17% in 2021/2022/2023.

Q: Can PWR deliver more consistent cash flow?
Very likely. Despite strong growth in Electric, we think PWR's cash flow should be relatively more steady over the next few years as compared to the last several, as PWR has fewer swings from large pipeline projects. The business model, which is now more electric and gas utility focused, and driven by steadier project activity including more maintenance work and smaller projects, should have less volatile working capital swings. We also expect fewer operational disruptions to cash flow. We estimate PWR will generate ~$530m of FCF in 2021, and ~$630m in 2022.

UBS VIEW

A return to steadier, more predictable growth: We expect Quanta to resume revenue growth in 2021 and beyond after 2020 was challenged by Covid-19 shutdowns and the impact of lower oil prices. We expect 10%/9% revenue growth (both segments positive) and 19%/20% EPS growth in 2021/2022. We believe Quanta is well-positioned to benefit from a long-term grid investment cycle, and that lower volatility/increased visibility to earnings and cash flow will result in a re-rating of the stock (as has already been observed).

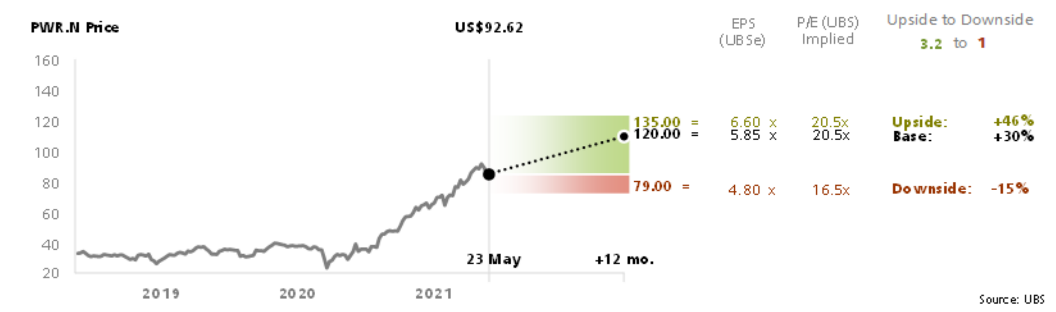
EVIDENCE

Quanta's Electric backlog has grown 15% YoY on average for each quarter since 2018. Several utilities, including Sempra and PG&E, have announced plans for growth in system hardening activities over the next several years. EIA forecasts renewable energy (ex hydro) to increase at a ~6.5%+ CAGR from 2020 to 2030. Recent industry reports suggest that the US's transmission infrastructure will have to grow 3x-5x by 2050 to meet clean-energy goals. The UBS US Autos team forecasts significant inroads in market penetration for battery electric vehicles, with market share growing from 4% in 2020 to 50% in 2030. PWR's mix of large pipeline projects (typically working capital users) has declined to less than 5% of revenue, from 10+% over the past few years.

WHAT'S PRICED IN?

Quanta is trading at a slight discount to the S&P 500 P/E on 2021 and 2022 consensus EPS (21.3x and 19.2x, respectively). While this represents a smaller discount than the 5 year average (~22% discount) the stock traded at a premium the last time the grid was en vogue (2012-2014), suggesting more upside to the multiple from here as earnings visibility becomes more accepted by investors.

UPSIDE / DOWNSIDE SPECTRUM



Value drivers (2H22+1H23)	Electric revenue growth	UU&I revenue growth	Total operating margin	Earnings per share	P/E
$135 upside	14.2%	6.5%	8.2%	$6.60	21.5x
$120 target	12.5%	5.4%	7.3%	$5.85	20.5x
$79 downside	7.5%	-3.0%	6.2%	$4.80	16.5x

UPCOMING CATALYSTS

Enactment of a federal infrastructure program, and any commitments by federal or state governments to more aggressive renewable energy targets. Federal action to streamline permitting for grid projects would also be a catalyst. Earnings should also be a catalyst as PWR proves out the earnings growth in Electric Power, steadier cash flow, and further distances itself from some prior execution headwinds.

Raytheon Technologies (RTX)

Buy ($96 Price Target)

Myles Walton, PhD, CFA, myles.walton@ubs.com, +1-617-439-8501

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: When will air traffic return to pre-pandemic levels?
We expect many domestic markets to be back to 2019 levels in 2022 while international traffic will likely take until 2024 before fully rebounding. Short-haul domestic travel will lead the way with long-haul international and business travel lagging behind which results in narrowbody utilization and production recovering faster than widebody, which should play to multi-stage recovery that should underwrite growth for years.

Q: Where is RTX's normalized FCF?
We see RTX FCF topping $9B in 2024 as the aerospace market is closer to a normalized state. Mgmt had initially planned for $8-9B of FCF in 2021 in the pre-pandemic post-merger outlook, but that will be delayed by 2-3 years. Importantly, mgmt recently laid out a path to over $10B of FCF in 2025 as well.

UBS VIEW

The newly formed aerospace & defense giant got off to a rough start in '20 as the pandemic halved its commercial aerospace business and mgmt. struggled with messaging as cost takeout seemed to trail peers. We are now through the worst of the pandemic and aerospace is recovering and though it will take years to fully recovery, we view RTX shares as one of the more fundamentally balanced ways to play the recovery. The company's large defense exposure did provide some downside protection and we see it remaining stable to having modest growth from here. We rate RTX a Buy with a $96 PT based on a ~6% FCF yield on our 2024 FCF/sh est discounted back 2 years at 8%.

EVIDENCE

The main driver to improved results from here will be Collins, where EBIT went from ~$1.1B/Q to ~$0.1B/Q. and Pratt which saw a similar fall to near breakeven from $0.5B/Qtr in '19. Given the improving booking trends we are seeing at the airlines, deferred maintenance and flight hour driven aftermarket spend will be accelerating through of '21 and '22 likely driving upside to '21 guidance.

WHAT'S PRICED IN?

On our 2024 FCF/sh estimate, RTX is trading at a 7.7% FCF Yield vs. a 7% yield for consensus which compares to a historical average for aerospace/defense companies of closer to 5.5-6.0%. Even when taking into account the outyear estimate and thus discounting, shares look relatively attractive.

RELATED RESEARCH

Investor Day Takeaways , 1Q Results Note ,

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2024 Revenue	2024 Margins	2024 FCF	Target FCF Yield
$110 upside	~$80B	15%+	~$10.0B	~5.5%
$96 target	~$77B	14-15%	~$9.5B	~6.0%
$75 downside	~$75B	<14%	~$8.5B	~6.5%

Source: UBS

UPCOMING CATALYSTS

UBS Conference participation (June 8th), 2Q21 earnings in late July, flight activity and passenger traffic trends, President's full budget

TE Connectivity (TEL)

Buy ($155 Price Target)

Chris Snyder, chris.snyder@ubs.com, +1-212-713-6116

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: What does the EV transition mean for TEL?
Doubles the revenue opportunity. TE's auto business is driven by global auto production and content per vehicle (CPV); EVs carry 2X the content of an ICE. We expect TE Auto outgrowth will widen above historical levels as EV market share compounds and EV unit production inflects. Our content intensity model & TE Auto build-up suggest outgrowth of 8% vs 4% historically and 6% consensus. The inflection will drive positive EPS revisions & provide scope for rerating as TE distances itself from auto cyclicality. Less appreciated tailwinds from the EV transition include better margins & improved defensibility.

Q: Will TE take share on the EV transition?
Yes. In addition to the 2x revenue opportunity, we think the EV transition will widen TE's moat vs low cost competition & consolidate market share given its high-voltage (HV) leadership position – supported by UBS Evidence Lab HV patent tracker (2x closest peer). Given the importance & sharp ramp of initial EV roll-outs for the legacy OEMs, we think OEMs will source conservatively, particularly for HV as it's a new component. Our view is supported by the UBS Evidence Lab WV ID.3 teardown which found $200 of TE content, well head of TE EV CPV guidance of $120 despite the vehicles' modest $30k price tag. Recent TE Auto outgrowth has inflected above what the powertrain mix shift would imply, suggesting share gains.

Q: Will TE benefit from a heightened focus on supply chain resiliency?
Yes. As a market leader in connectivity & sensor solutions, TE Industrial carries exposure to automation which we view to be an attractive market accelerated by Covid. We think automation will take share of global capex wallets behind the heightened focus on supply chain resiliency. Our US Reshoring thesis has strengthened in 2021 on policy support & further supply chain disruption, a tailwind for automation as replacing higher cost labor increases the ROI & expands the TAM. According to UBS Evidence Lab Reshoring monitor, Corp reshoring announcements are up 5x vs pre-pandemic levels.

UBS VIEW

TE offers a unique combination of cyclical recovery & inflecting secular drivers which should allow market outgrowth to inflect above historical levels, a positive for both EPS & valuation.

EVIDENCE

Our work is supported by a detailed TE Auto build-up, forecasting revenues based on production, powertrain tailwind, regional impact & underlying content trends. Work incorporates a host of proprietary UBS Evidence Lab datasets including: VW ID.3 tear-down, High-Voltage patent tracker & Reshoring Monitor.

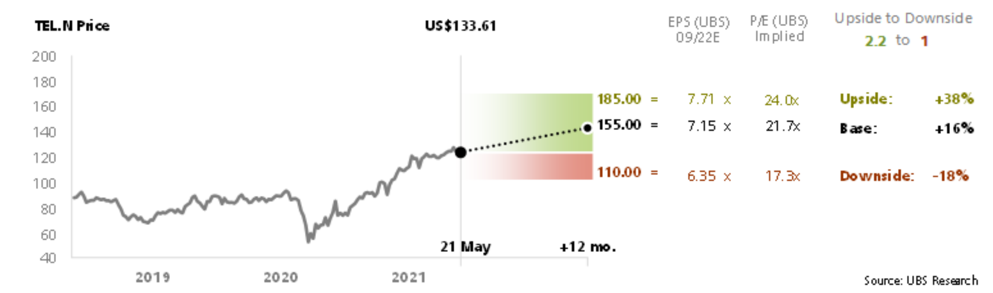
WHAT'S PRICED IN?

TE is trading in line with its historical relative SPX multiple, suggesting no premium for inflecting outgrowth.

RELATED RESEARCH

VW ID.3 tear-down supports bullish EV thesis; Patent monitor supports HV leadership; Reshoring Monitor up 5x vs pre-Covid levels; Two-fold beneficiary of domestic EV investment; Recapping Infrastructure

UPSIDE / DOWNSIDE SPECTRUM



UPCOMING CATALYSTS

Auto production bottlenecks resolved (improved visibility into outgrowth) & Biden EV policy agenda.

S&P Global (SPGI)

Buy ($445 Price Target)

Alex Kramm, alex.kramm@ubs.com, +1-212-713-4060

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can the INFO acquisition enhance SPGI's earnings profile?
Yes. We believe the potential deal can accelerate organic growth and drive robust margin expansion, while also shifting SPGI's business mix to be more recurring in nature (~75% pro forma TTM). We see significant revenue and expense synergy potential from the merger.

Q: Can debt issuance continue to support healthy top-line growth?
Yes. While issuance growth will likely be challenged in 2021 given tougher comps, we expect the combination of low rates, corporate debt refinancing needs, the Fed programs, and pricing power to provide support. We expect Ratings revenue to grow ~6.5% in 2021E.

UBS VIEW

We remain constructive on SPGI as we believe the pending INFO
upside through accelerated organic growth, more robust free cash flow generation (for investments or to return to shareholders), and a greater mix of recurring revenues. We also are bullish on the long-term growth opportunities from China and ESG. We have renewed confidence in issuance for FY21 given the combination of low rates and corporate debt refinancing needs, while M&A and non-transactional revenues could drive upside. Non-Ratings segments should also see mid-single-digit growth over the medium term.

EVIDENCE

SPGI's diversified business mix has supported a ~7% CAGR since 2016, demonstrating the resiliency of the model through various economic conditions. The INFO deal is expected to enhance SPGI's top-line growth profile, with organic growth of 6.5%-8.0% from 2021-2023, 70bps above S&P's core organic growth rate and 125bps above INFO's target range. Additionally, the merger brings the recurring revenue mix at SPGI to 75% (TTM) which, along with accelerated growth, should be supportive of the multiple. Aside from the top-line picture, the company expects ~200bps of adj. operating margin expansion per year over the next few years, while the combined entity is also now aiming to return at least 85% of FCF to shareholders.

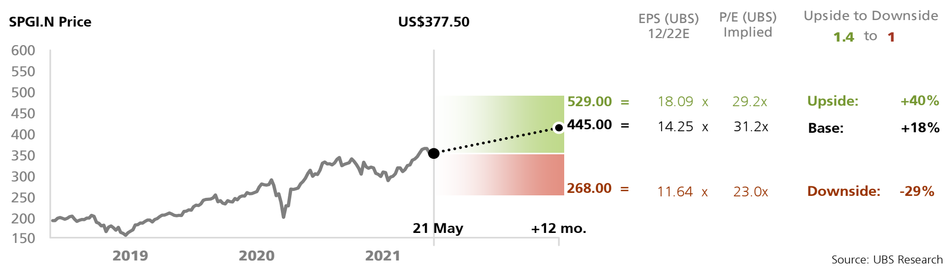
WHAT'S PRICED IN?

With shares up 19% YTD, SPGI has outperformed its information services peers. That said, as investors continue to understand and agree with the strategic rationale of the INFO deal and as SPGI continues to outperform its peers, we expect upside to our target

RELATED RESEARCH

Exploring the INFO Deal Upside Case

UPSIDE / DOWNSIDE SPECTRUM



Value drivers (FY22e)	Ratings Growth	Other Rev. Growth	Ratings Op. Margin	Company Op. Margin	Buybacks
$529 upside	+15.0%	+10.5%	64.5%	57.0%	$3.40bn
$445 base	+8.0%	+6.9%	64.0%	55.6%	$1.10bn
$268 downside	+2.0%	-5.0%	56.5%	51.0%	$0.80bn

Source: UBS

UPCOMING CATALYSTS

INFO merger (likely to close in 2H21) and any associated updated synergy targets; issuance trends; 2Q21 earnings in late July/early August

CONSUMER

Constellation Brands Inc (STZ)

Buy ($256 Price Target)

Sean King, sean.king@ubs.com, +1-212-713-2329, Mobile: +1-301-275-9065

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can capacity expansion plans meet demand?
Yes, capacity expansion plans in Nava and Obregon as well as a third potential brewer should help meet demand at the high-end of the historical 7-9% growth algorithm in the medium and long-term. STZ plans to add 15mm hectoliters of capacity in Nava and Obregon (~+150-175mm cases to current capacity of ~410mm cases assuming a 90% utilization) by FY25 and are currently assessing sites in the southeast of Mexico for a third brewery which could add additional flexibility beyond F25. We model +M-HSD topline momentum through FY25 driven by continued innovation, distribution and growing brand awareness.

Q: Is there risk to STZ's Beer profit outlook for FY22?
No, we model Beer operating profit growing +4.4%, toward the high-end of the guidance for +3-5% growth. While we expect some input cost inflation as seen across CPG peers, STZ benefits from local sourcing of cans & bottles, and reduced exposure to traditional freight inflation, as rail comprises ~70-75% of its logistics costs. Negative portfolio mix (kegs, ABAs, seltzers), stepped-up brewery depreciation, and increased marketing spend are also expected, however we believe cost savings, volume leverage from FY1H shipments and outsized pricing will help mitigate these transitory pressures.

UBS VIEW

STZ is well positioned as a reopening trade with LT growth potential on innovation, increased household penetration, and distribution expansion of key brands (Modelo, Corona, and Pacifico). In FY22, we expect STZ to benefit from channels reopening and lapping of a COVID-related supply disruption. We model +M-HSD top-line momentum through FY25 supported by capacity expansion.

EVIDENCE

Our outlook for STZ's sales growth and margins is based on a detailed bottom-up analysis of category performance, cost savings targets, and industry expert insights.

WHAT'S PRICED IN?

At 22x P/E, STZ trades at a compelling valuation relative to peers for a favorable reopening event-path, durable long-term growth, steady deleverage, and rising cash return to shareholders.

RELATED RESEARCH

STZ – Topline Momentum, Capacity Clarity and Commitment to Cash Return 4Q21 Results – 4/8/2021
STZ – Looking Beyond Near-Term Risks – Inventory Rebalance Drives +DD 2H Shipment Growth – 6/15/2020
STZ – Dislocation Too Compelling (Upgrade to Buy) – 4/7/2020

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	5yr Sales CAGR	FY22 Gross Margin	FY22 Op. Margin	FY22 adj. EPS
$333 upside	+6.3%	54.7%	34.8%	$10.61
$256 target	+4.8%	54.1%	33.9%	$9.97
$174 downside	+1.7%	53.1%	33.4%	$9.41

Source: UBS

UPCOMING CATALYSTS

Summer/Fall 2021 – Bi-weekly Nielsen data; July 2021 – 2Q21 Earnings

Dollar Tree (DLTR)

Buy ($130 Price Target)

Michael Lasser, michael.lasser@ubs.com, +1-212-713-2440

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Does Dollar Tree have the right initiatives in place to support consistent SSS growth?
Yes. DLTR has several storylines that should help drive SSS and the stock higher. DT's top & bottom lines can be supported by increased mobility in FY'21 & the rollout of DT Plus to 500 locations (we calc DT's multi-price points could add 100-150 bps of SSS for every 2-3% of its SKUs where it's rolled out, assuming 50% of sales are incremental). This should allow DT Plus to remain a part of the co's narrative for years to come, similar to what Dollarama experienced in Canada. Plus, we expect FDO's H2 renovations to lift SSS by 100-200 bps, which should help it better weather tough compares in CY'21.

Q: Can Dollar Tree sustain its recent margin expansion?
Yes. We think much of DLTR's recent margin expansion has been driven by sources that should be sustainable. Shrink can aid FDO's GM through at least 1H'21 (50 bp tailwind on avg in 2H'20). Plus, DLTR's merchandising efforts can drive more favorable mixes at both banners. Further, fewer COVID costs ($279 mm in FY'20), should more than offset an est. $45-$50 mm in wage pressures & ~$80-$100 mm in freight costs in FY'21. We model 43 bps of OM expansion in FY'21, which compares to the cons. of 13 bps.

UBS VIEW

DLTR combines a stable business model with a visible earnings driver. We expect Family Dollar to experience an improvement in sales productivity as it benefits from its consumables offering (short run) & store renovations (long run). At the same time, we expect Dollar Tree to benefit from increased mobility in FY'21 and from its multi-price point initiative over time. As DLTR shows more consistency on the top line and demonstrates margin stability, we expect its shares to inflect higher.

EVIDENCE

Our deep dive work on Dollar Tree's multi-price point strategy suggests customer response to the new concept is positive, & prices are quite competitive. Our work also highlights why FDO's H2 strategy supports a long term comp opportunity that is considerably above what consensus is assuming.

WHAT'S PRICED IN?

The stock is flat YTD and currently trades at a -16%+ discount to industry leader DG on an NTM P/E basis. This compares to its 3 year average of a -12.5% discount.

RELATED RESEARCH

Getting To The Price Point; Plus, Plus, Plus; Time to Give Thanks?; Finding the Right Combo

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Comp growth	New store contribution	Revenue growth	Operating margin	Diluted EPS
$150 upside	4.0%	2.1%	6.1%	8.5%	$7.90
$130 target	2.6%	2.1%	4.7%	8.2%	$7.37
$85 downside	1.5%	2.1%	3.6%	8.0%	$7.04

Source: UBS

UPCOMING CATALYSTS

1Q'21 earnings on May 27th, 2021, monthly Census Retail sales releases

L Brands (LB)

Buy ($102 Price Target)

Jay Sole, jay.sole@ubs.com, +1-212-713-3559

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: How much top-line growth can LB generate?
We think LB can deliver a 6% 4-year post-pandemic (FY21-25) EPS CAGR. After a revenue decline of -8% in FY20, revenues rebound to 10% above FY19 levels in FY21. Our +6% CAGR reflects: sales rising in the MSD% range, and 2) VS sales declining in the LSD% range (both during FY21-25).

Q: Can VS and BBW reach their long-term EBIT margin targets?
Yes. We anticipate VS's FY22 EBIT margins improve ~1050 bps to 13.8% from 3.3% in FY20, and remain stable, along the company's mid-teens range. This forecast reflects: 1) Positive average unit retail trends given tight inventory control; 2) Net cost savings due to unprofitable store closures; and 3) Margin-accretive international opportunities. We anticipate BBW's margins stabilize close to 24%. We think BBW can sustain a 24% EBIT margin given share gains in the home and personal care category and via growth in higher margin international markets.

Q: Can Specialty Retail matter?
Yes. UBS Evidence Lab eCommerce survey suggests millennial consumers want value and the flexibility to be able to shop either in stores or online – something Bath & Body Works is in a strong position to offer.

UBS VIEW

We rate LB Buy. The company has navigated the pandemic well and we see its FY20 merchandise margin gains as sustainable. We model Bath & Body Works comps up in the LSD% to MSD% range even after the pandemic ends, with EBIT margins at ~24%. We believe LB will turn around Victoria's Secret and think this brand's EBIT margin opportunity remains overlooked by the market. We forecast a ~6% 4-year EPS CAGR (from FY21 FY25) and expect this growth to catalyze a P/E ~17x.

EVIDENCE

UBS Evidence Lab traffic, Google search, social media, and pricing data, along with other industry data sources suggest LB's Bath & Body Works brand continues to perform very well. Also, UBS Evidence Lab data points to a broad improvement in Victoria's Secret's pricing.

WHAT'S PRICED IN?

Our reverse DCF analysis suggests the market is pricing in a solid FY21 rebound and momentum into FY22.

RELATED RESEARCH

US Softlines Retail "Post-Reopening Playbook: Upgrade ANF, GIL, KTB, and LB to Buy"

UPSIDE / DOWNSIDE SPECTRUM

Value drivers **4Y avg. (FY21-25)**	Revenue Growth	Op. Margin 2025	EPS Growth	Target Forward P/E
$127 upside	3.7%	19.0%	8.8%	18.5x
$102 target	1.9%	17.6%	5.6%	16.5x
$39 downside	0.7%	13.5%	-1.6%	9.0x

Source: UBS

UPCOMING CATALYSTS

Spin-off of Bath & Body Works and Victoria' Secret as a standalone business in August 2021, with July roadshows and possible analyst day to highlight strengths of each business.

McDonald's (MCD)

Buy ($260 Price Target)

Dennis Geiger, dennis.geiger@ubs.com, +1-212-713-9313

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can MCD achieve +DD US comps in 2021?
Yes, we model US sss of 11% in 2021, w/ further market share gains behind execution against existing and new initiatives & investments. Improved visibility into MCD's '21 comp catalyst path reflects key drivers including: technology & digital contrib, enhanced mktg, new product innovation & extensions, and ops improvement & speed. Our franchisee checks highlight particular optimism around '21 product/mktg plans.

Q: Will MCD still be able to drive high single-digit EPS growth over the next several years?
Yes, we believe MCD will generate a 15% EPS CAGR over the next 5 years, and even after 2021 (UBSe 40%+ growth) we model a 9% CAGR from 2022-2025. We expect support from highly visible and strong system sales growth, along with leverage & efficiency driven margin expansion (avg. +100 bps op margin expansion 2022-2025), and the return of share repurchase (nearly $20BN 2022-2025).

UBS VIEW

We believe MCD maintains among the better paths to sss outperformance in 2021 and beyond, supported by multiple initiatives and ongoing investments. We view elevated US sss as sustainable and see a significant international sales recovery ahead, w/ market share gains likely in most key markets globally. We view risk/reward as attractive as continued comp momentum should support +HSD EPS and FCF growth, while downside appears limited (defensive characteristics, div. yield, peer valuations).

EVIDENCE

Our 11% 2021 US sss forecasts are supported by: 1) multiple UBS Evidence Lab analyses - a) QSR consumer survey highlighting key points of focus for the brand as top factors driving increased customer visits (good value & promos, faster service, new menu items); b) Improved perceptions y/y across value, convenience & speed; c) digital/takeaway survey indicating leading intent to use mobile order ahead relative to peers, and growing demand for an enhanced loyalty offering. 2) Discussions w/ franchisees suggesting expectations for cont. momentum behind enhanced marketing, new products, and improved ops/speed; w/ particular optimism around 2021 plans supporting upside confidence.

WHAT'S PRICED IN?

While recent outsized US comps helped drive shares to an all-time high in early May, recent macro concerns, incl. inflation, have been a drag on restaurant stocks. Cons. models 3% US sss & $9.55 in 2022 EPS.

RELATED RESEARCH

Cooking Up a Juicy 2021; Upgrade to Buy; Marketing Should Be Dynamite; Outlook is Golden

UPSIDE / DOWNSIDE SPECTRUM

F22 Value drivers	US sss	IOM sss	IDL sss	Op Margin
$298 upside	5.0%	7.8%	6.5%	46.6%
$260 base	3.1%	5.8%	4.4%	43.8%
$198 downside	2.0%	3.8%	2.0%	40.2%

Source: UBS

UPCOMING CATALYSTS

2Q21 earnings in late July, franchisee checks, weekly credit card data

Mondelez International (MDLZ)

Buy ($67 Price Target)

Sean King, sean.king@ubs.com, +1-212-713-2329, Mobile: +1-301-275-9065

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Mondelez deliver on its long-term target of 3%+ organic sales growth?
Yes, we believe so. As the global pure play in Snacking, category tailwinds in Biscuits, Chocolate, Gum & Candy (after lapping COVID challenges) segments support long-term growth of ~3% and we expect Mondelez to grow at or above that rate given its scale and investment in both global and local brands.

Q: Is Mondelez's emerging market exposure a net positive or negative?
A positive long-term. We view EM exposure as a net positive overall. However, given near-term headwinds and macro risks we do think this exposure poses risk in the short term. Longer term, Mondelez's emerging market infrastructure provides the company with unique scale advantages in faster-growing geographies.

UBS VIEW

Mondelez is focused on accelerating sales growth to 3%+ from a 1.5% historical CAGR. We believe growth investments can accelerate top-line growth and disprove the bear case. Within this setting, MDLZ should drive modest EBIT margin expansion and +double-digit long term total shareholder return.

EVIDENCE

Our outlook for Mondelez's sales growth and margin performance is rooted in a detailed bottom-up category and geographic revenue analysis using third-party data, in-depth benchmarking analytics for our cost savings targets, interactive M&A modeling and insight from industry contacts.

WHAT'S PRICED IN?

Mondelez trades at 21x P/E which is a discount to multinational peers and we believe underappreciates the resiliency of its business model and advantaged geographical footprint.

RELATED RESEARCH

MDLZ - Refocus on Topline Growth Positions MDLZ to Emerge Stronger (4/28/21)
MDLZ - FY21 Guide sets up for 3rd Straight On-Algo Year (1/29/21)
MDLZ - Strong 3Q Sales driven by broad portfolio gains (11/3/20)

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	3yr Sales CAGR	FY21 Gross Margin	FY21 Op. Margin	2021 adj. EPS
$80 upside	+4.0%	40.0%	17.6%	$3.00
$67 target	+3.0%	39.8%	17.3%	$2.90
$51 downside	+2.0%	39.3%	17.0%	$2.82

Source: UBS

UPCOMING CATALYSTS

Summer/Fall 2021 – Bi-weekly Nieslen data

July 2021 – 2Q21 Earnings

Ulta Beauty (ULTA)

Buy ($380 Price Target)

Michael Lasser, michael.lasser@ubs.com, +1-212-713-2440

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will the demand for beauty products return to pre-COVID levels as the economy reopens?
We think so. While the past year was disruptive to beauty retail, we believe this was temporary. Emerging from the virus, we think that consumers remain engaged with the category. Further, wallet share for beauty products may grow as many consumers added new skin and hair care products to their routines that could prove permanent. Additionally, we believe there is a strong pipeline of innovation within makeup. This should help fuel a recovery in the channel. ULTA is well positioned to capitalize on these trends, and likely gained share as a result of challenges at department stores and mall based retailers. As the retailer laps easy compares, we model 18.7% SSS in 2021 followed by an estimated 7.8% comp in 2022.

Q: Can ULTA return to double digit operating margins?
Yes, as we believe that the underlying profitability of the business remains largely intact. Notably, store productivity should return as the demand for beauty recovers. Further, growing usage of BOPIS will help offset margin pressures from growing eComm penetration. Importantly, ULTA was able to reset its promotional slate in 2020, which should provide long-lasting margin benefits. Additionally, the company has taken actions to streamline its cost structure, including the creation of its service manager. Altogether, we believe ULTA can return to strong flow-through, and are forecasting 11.1% operating margins by 2022.

UBS VIEW

We believe that ULTA presents a top reopening play, as the beauty category is highly levered to a return to normalcy. Further, a reintroduction of newness, pent-up demand, and the addition of hair and skincare products to routines should drive a period of elevated strength. Given ULTA's strong outlook, we believe it presents a compelling risk/reward. We rate ULTA Buy and our PT of $380 is based on 29x our CY'22 EPS est.

EVIDENCE

The lack of newness and likely strong pipeline of innovation in the market is supported by UBS Evidence Lab (> Access Dataset) data that shows 69% of ULTA's online assortment was available a year ago. This is a step up from 63% in '20 and 54% in '19. Further, the UBS Evidence Lab US competition model (> Access Dataset) shows that net store formation across the beauty retail comp set (~40 retailers) declined -1.2% in 1Q'21.

WHAT'S PRICED IN?

Against its 5 year average trading multiple, the market is implying 2022 EPS of $12.15 for ULTA. This compares to our estimate of $13.04. We believe this reflects that the market is not fully appreciating the runway for growth that the beauty category is poised for in a reopening.

RELATED RESEARCH

Getting Plumped Up; What's Happening in Beauty Retail, 1Q'21; The Beauty Category Has A Bright Outlook

UPSIDE / DOWNSIDE SPECTRUM

Value drivers (CY'22)	Comp growth	New store contribution	Revenue growth	Operating margin	Diluted EPS
$463 upside	9.0%	2.8%	11.8%	12.2%	$14.95
$380 target	7.8%	2.8%	10.6%	11.1%	$13.04
$236 downside	2.0%	2.8%	4.8%	10.2%	$10.75

Source: UBS Estimates

UPCOMING CATALYSTS

1Q'21 earnings on May 27th, 2021, monthly Census Retail sales releases

United Airlines (UAL)

Buy ($67 Price Target)

Myles Walton, myles.walton@ubs.com, +1-617-439-8501

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can UAL outperform despite their balance sheet expansion?
Yes, outside of returning to a more normal operating environment, UAL stands out as one of the few names that has idiosyncratic drivers that could provide incremental upside to the recovery. UAL unlike other carriers has not accelerated retirements within their fleet and thus have preserved more flexibility throughout the undulations of the recovery. Given their peer-leading pre-COVID cost structure and relatively outsized exposure to international traffic, we see UAL as the best way to play the next stage of the recovery theme in 2H21.

Q: Will US Airlines' traffic and capacity make a recovery in 2022?
No, even with vaccine momentum, we anticipate a full recovery won't be achieved until 2023, which would imply a CAGR for traffic and capacity growth of 23% and 38%, respectively, from '20-23E. We continue to believe the pace of the domestic and VFR/leisure markets will be pronounced in its recovery with much more guarded recovery in business travel given "virtual efficiencies". While it would appear that rising COVID rates throughout much of the globe and increased restrictions could dampen any recovery prospects over the coming 4-6 months, vaccine data does create a path to a faster recovery than previously expected. We do not see things returning to pre-COVID levels evenly for our aerospace and airlines coverage.

UBS VIEW

We see an opportunity for UAL shares to outperform as we believe the following characteristics are currently underappreciated in today's share price. 1) Better cost controls that have been further restructured, 2) operational flexibility in their fleet allowing them to take advantage of a potentially more robust recovery 3) underappreciated co-branded credit card agreement renewal and 4) leverage to second stage of the recovery in 2H21 with relatively more exposure to international travel.

EVIDENCE

United has suffered the greatest change in market cap since YE19 at down -35% (vs. AAL and DAL down -29%) at the expense of the pandemic and the implied upside on the equity to return to 2019 levels is ~14% (vs. DAL implied downside at ~1% and AAL implied downside of ~35+%).

WHAT'S PRICED IN?

Assuming a historical EV/EBITDAR multiple of 6x, we see UAL currently implying a less robust recovery than our view over the next 24 months and never priced in the benefit of the renewed credit card agreement.

RELATED RESEARCH

2021 Outlook & UAL Upgrade

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Rev back to '19	'23 ASM y/y	'23 Load Factor	EBITDAR Multiple
$80 upside	2022	25%	82%	~6.5x
$67 target	2023	20%	79%	~6x
$44 downside	2024	15%	75%	~5x

Source: UBS

UPCOMING CATALYSTS

2Q Earnings, evidence of a pickup in international and/or business travel

ENERGY

Devon Energy Corp (DVN)

Buy ($33 Price Target)

Lloyd Byrne, lloyd.byrne@ubs.com, +1-212-713-9701

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: How does management reassure investors?
Formulaic payout. Devon paid its industry-first fixed plus variable dividend earlier in 2021. The company's formulaic approach to returning capital to shareholders insures a direct payout for skeptical investors looking to capitalize on the current and future commodity environment. DVN has noted a fixed dividend target payout of up to 10% of operating cash flow (OCF)390. On top of the fixed dividend, the company commits to payout up to 50% of excess FCF (OCF-Capex-Fixed Dividend) on a quarterly basis. At $60 WTI and assuming 50% of excess FCF is paid out as variable dividend, management expects incremental 2021E dividend yield of >7%, highest vs its peers. DVN's strategy has been well received, with several peers considering similar methodology. The approach reinforces the sector's transition to lower growth / increased shareholder return strategy.

Q: Does DVN have sufficient Tier 1 inventory to support the formulaic strategy?
Yes, with a breakeven in the mid-to-low $30s, DVN has inventory to generate FCF even at lower prices than at today's forward curves. DVN has an identified 5-year Tier 1 inventory in place, with years 6 thru 10 currently being defined. Furthermore, with its recent merger with WPX Devon has been able to diversify its acreage base and lower exposure to federal land from 55% to 35%. The company has ~500 federal permits or multiple years of inventory. The company is also seeing promising results on Monument Draw (as part of WPX merger) in the Delaware with 30-day IP of 2.3mbpd and 76% oil on six Wolfcamp wells. As the company continues to extrapolate results, it expects Monument Draw will effectively compete for capital. We expect additional color on the 2Q call.

UBS VIEW

DVN is well positioned. It heeded investor demands to prioritize FCF generation, with an emphasis on returning capital, maintaining a lower production growth profile (0-5%), and strengthening its balance sheet. Furthermore, DVN continues to take strides on improving efficiency through cost savings initiatives. As DVN continues to integrate WPX, it expects to drive cost synergies of ~$600mn by YE21. Pushback is around the Felix private equity overhang.

EVIDENCE

At strip, we expect DVN to generate FCF yield of ~14% in 2022. This is driven by lower breakeven vs peers, better capital efficiency as DVN continues to roll-in Tier 1 WPX inventory into the mix, and continued cost savings.

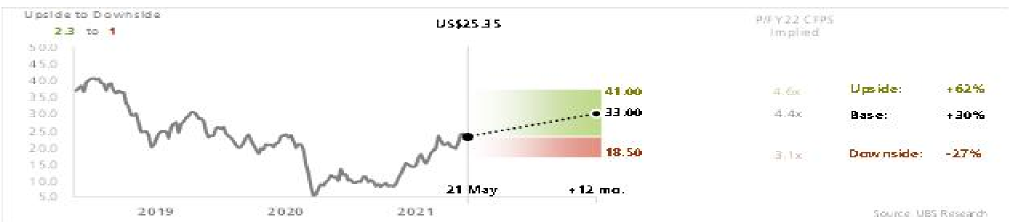
WHAT'S PRICED IN?

DVN is trading ~25% below our PT of $33 and at 3.8x P/CFPS, in line with its 3-yr avg. Our PT is based on ~0.5x premium to 3-yr avg given the recent WPX merger, improved inventory depth, and formulaic payout initiative. We expect DVN to unlock incremental value from the merger through its cost saving initiative.

RELATED RESEARCH

Show Me the Money; 1Q Beat; Debt Reduction on Track

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	2022 WTI Price	2022 HH Price	P/FY22 CFPS Multiple
$41 upside	$65.78	$2.90	4.6x
$33 target	$58.28	$2.65	4.4x
$18.5 downside	$50.78	$2.40	3.1x

Source: UBS

UPCOMING CATALYSTS

Update on cost savings initiative, WPX integrations, and additional color on Felix Assets.

Generac (GNRC)

Buy ($390 Price Target)

Jon Windham, jon.windham@ubs.com, +1-617-478-4711

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can GNRC achieve 2021 revenue growth guidance?
Yes. We forecast 44% y/y revenue growth in 2021E driven by 57% y/y growth in U.S. Home Standby (HSB) generator sales underpinned by a strong backlog of demand. We expect HSB sales growth to moderate after 2021 to as consumer demand for backup power normalizes post COVID. Partially offsetting this anticipated slowdown is strength in GNRC's growing clean energy segment & a continued recovery in C&I demand.

Q: What is the outlook for GNRC's residential clean energy business?
We expect the Clean Energy business to account for 11% of GNRC 2021E domestic residential sales and ~30% of net sales growth 2021-2025E. GNRC has distinct advantages in breaking into the residential solar+storage market, in our view, including its brand, experience converting marketing leads to customer sales, ability to leverage its existing customer service infrastructure, installer support and ability to cross-sell traditional HSB. We see potential upside for GNRC should a standalone storage tax credit be passed as part of a broader infrastructure package. GNRC's existing national installer footprint positions GNRC well to drive penetration of the potentially emerging battery backup power market for multi-unit housing.

UBS VIEW

GNRC provides a relatively uniquely diversified opportunity to which investors can gain exposure to the rapidly growing solar + storage market w/ underlying earnings stability from GNRC's core business of recession resilient home standby power.

EVIDENCE

The resilience of the HSB market was demonstrated in the GFC when GNRC revenue growth during the GFC was more stable than the U.S. backup power market. Housing starts have historically been weakly correlated to GNRC gross profit growth (r=0.36) and uncorrelated to gross margin (r=-0.07).

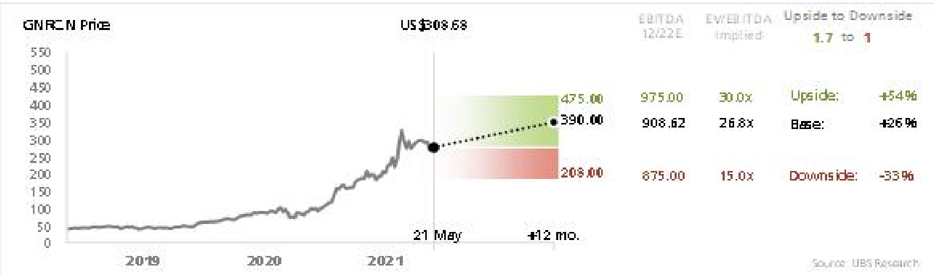
WHAT'S PRICED IN?

GNRC is currently trading at ~19x 2022E EV/EBITDA compared to solar inverter peers at ~30-40x. We see potential for GNRC to continue to re-rate higher as the company penetrates the residential solar & storage markets.

RELATED RESEARCH

UBS Evidence Lab inside: US Distributed Solar Statistics; Strong 1Q21, FY2021 adj. EBITDA guide +14%; The virtual power plant opportunity; Renewable energy upside. Initiate GNRC at Buy

UPSIDE / DOWNSIDE SPECTRUM



Value drivers 2022E	HSB sales growth	C&I sales growth	Clean Energy sales growth	Adj. EBITDA
$475 upside	7%	15%	69%	$975mn
$390 target	-3%	10%	45%	$909mn
$208 downside	-8%	5%	31%	$872mn

Source: UBS

UPCOMING CATALYSTS

2Q21 results; monthly California distributed solar stats data; passage of standalone storage tax credit (possibly 2H21); rollout of off-grid generator (SPI conference in September 2021)

Plains All American Pipeline (PAA)

Buy ($16 Price Target)

Shneur Gershuni, shneur.gershuni@ubs.com, +1-212-713-3974

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will Permian Rates Re-Contract Below $1.00/bbl

No, we do not believe Permian re-contracting will happen below $1.00/bbl, and model in a re-cut of rates at $1.50/bbl. We expect re-contracting closer to $1.50/bbl vs. the less than $1/bbl scenario some investors

believe will play out due to the abundance of pipeline capacity out of the Permian. Our thesis is premised on focusing on Gulf Coast (GC) evacuation vs. looking at Permian capacity at the whole and is further reinforced by higher production expectations.

Q: Will Permian pipeline capacity utilization increase going forward?

Yes, we expect Permian pipeline utilization to hit a low in 3Q21 as Wink to Webster comes online, however with rigs being added we expect higher production in 2022+. With no new pipelines coming online post Wink to Webster we see utilization increasing, further with crude wanting to move to the coast, we see a scenario where utilization crosses the 85% level in 2023 which should help re-contracting cycles and likely signal the need for DRA.

UBS VIEW

There has been much debate on PAA's Permian pipeline re-contracting in 2025+ with investors noting the potential for a re-cut of rates to less than $1.00/bbl, however we bifurcate takeaway capacity between the Gulf Coast and Cushing and see a more favourable re-contracting cycle, with an estimated rate of $1.50/bbl, hence potential upside to investors earnings expectations and Rate PAA a Buy with a $16 PT.

EVIDENCE

Based on our Permian pipeline utilization model, we estimate Gulf Coast pipeline utilization of 81%/91% in 2022E/2023E.

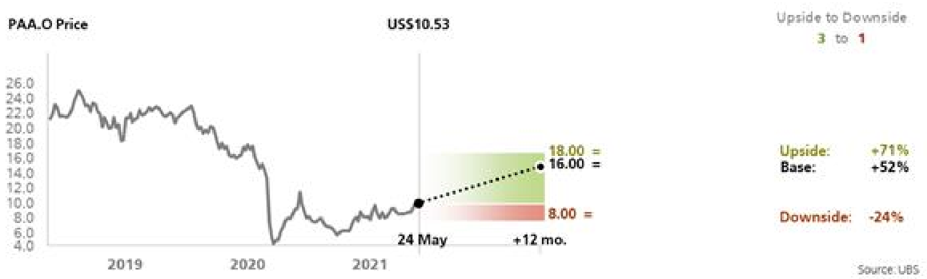
WHAT'S PRICED IN?

Based on our estimates PAA currently trades at roughly 8.1x EV/22 EBITDA below its peer average of 9.3x. Further PAA trades at a ~20% 2022e FCF yield and a 4% 2022e FCFaD yield above its peer average of 2%, hence we don't believe a better than expected re-contracting cycle is currently being priced into the stock.

RELATED RESEARCH

A Deeper Dive on PAA and the Permian;

UPSIDE / DOWNSIDE SPECTRUM



UPCOMING CATALYSTS

An update on asset sales, as well as the tariff filing for Wink to Webster

Sempra Energy (SRE)

Buy ($174 Price Target)

Dan Ford, dan.ford@ubs.com, +1-212-713-2224

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will the Sempra Infrastructure Partners (SIP) Transactions Catalyze Upside?
Yes, The completion of the SIP transactions will lead to earnings accretion in 2021 and into 2022 and catalyze upside into Sempra's analyst day likely held June 29.

Q: Should a California Discount Apply to Sempra for Wildfire or Natural Gas Risks?
No. We don't believe Sempra's California utilities should be valued with a California discount for either factor.

Q: Will Inflationary Pressures Impact LNG Development?
No, while commodities are up significantly in price there are factors that insulate the project from inflation.

UBS VIEW

Sempra shares are undervalued with upcoming catalysts around completion of the SIP transactions, the likely approval of the San Diego franchise agreement, and the June analyst day. The utilities are top quartile growers with constructive regulation with minimal CA wildfire risk, and growth opportunities around GHG reductions for the natural gas utility. SIP provides leverage to economic growth and a partial hedge to inflation risks. Proceeds from the SIP transaction create self-funded growth and strengthen the overall balance sheet.

EVIDENCE

The least accretive use of proceeds from the SIP sale is debt retirement, which is $0.20/share accretive. SIP comps trade at 12.6x '22 EV/EBITDA vs. 8.2x in SRE's share price. CA wildfire exposure is low, given SDG&E's 7% contribution to the state wildfire fund premised on the actuarial assessment of risk, and AB1054 has significantly reduced risk associated with inverse condemnation. Utility growth is top quartile at 8% through 2025, on 9% rate base growth with good regulatory quality in TX and settled regulation in CA with an attrition agreement through 2023. Natural gas remains viable in CA given state support for 20% RNG in the molecule stream by 2030. LNG is relatively protected from inflation: steel prices are up ~220% since 3/20, but Asian and European LNG prices are up ~350% and ~475% over the same timeframe, while the Henry Hub natural gas feed stock has only risen ~55%.

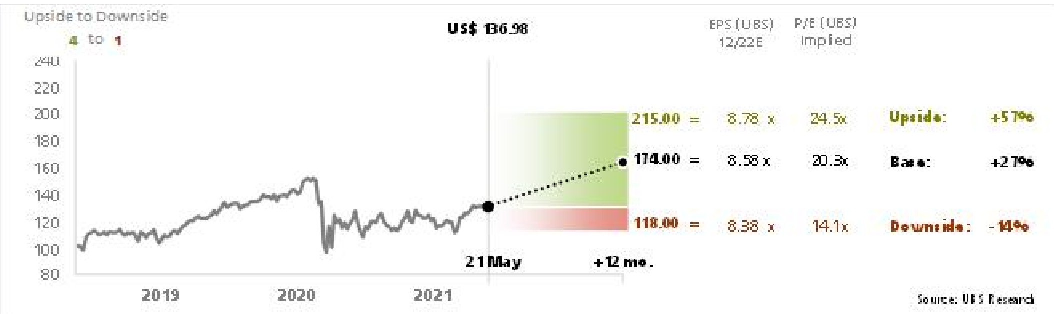
WHAT'S PRICED IN?

If we fairly value the utility businesses SIP is trading at an implied 60% discount. If we fairly value SIP the utilities are trading at an implied 15% discount.

RELATED RESEARCH

1Q'21 Beat; Guidance Reaffirmed; Analyst Day in June, SIP 20% Stake Sold to KKR for $3.37Bln, San Diego Update and Rate Case Proposed Decision, Sempra Infrastructure Partners: Comping the Comps

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Utility Premiums TX/CA	Utility Valuation P/E CA	LNG Development Value	SIP EV/EBITDA Multiple
$215 upside	25%/15%	18.1x	$22	16.9x
$174 target	15%/15%	18.1x	$22	9.5x
$118 downside	0%/0%	10.7x	$0	7.6x

Source: UBS

UPCOMING CATALYSTS

IEnova tender exchange expiration 5/24, San Diego City Council Vote 5/25, IEnova extraordinary shareholder meeting/potential share delisting, Analyst Day likely 6/29, FID Cameron Phase 2 LNG.

Suncor Energy (SU.CA)

Buy (C$39 Price Target)

Lloyd Byrne, lloyd.byrne@ubs.com , +1-212-713-9701

PIVOTAL QUESTIONS

Q: Is incremental FCF to debt repayment (2/3) and shareholder buybacks (1/3) optimal?
Yes. Operational upsets, carbon / political concerns, and reduced payout to shareholders have combined to drive underperformance. Addressing each of these will important to future equity performance, and with a ~C$35/bbl breakeven (including dividends) and improving refining margins, SU is positioned to generate strong cash flows (post 2Q turn arounds). SU lowered its debt by C$1.1billion in 1Q21 and has repurchased ~C$530mn of stock since the restart of the buyback program in February 2021. With higher FCF, continued cost efficiencies, and an improving downstream, the possibility of an acceleration of debt reduction targets and an increase in the dividend in 2H21 exists.

Q: Can SU improve its asset reliability?
Yes. Asset reliability has been a market frustration with SU and the company made important progress on it during 1Q21, with downstream utilization of 92%, upstream combined upgrader utilization of 97%, and in situ production at record high. The higher utilization coupled with the systems overhaul led to a material decrease in oil sands costs, down ~C$300mn from 1Q20 despite ~60mbpd higher production. We believe SU needs to continue to execute and the recent quarter performance is indicative of moving in the right direction. Of note, 2Q21 is impacted by turnarounds though.

UBS VIEW

There continues to be market concern surrounding SU's asset reliability. We believe the company is making important progress – see above. We also believe Suncor's highly integrated retail and wholesale network of ~1,880 sites is underappreciated. From an asset divestment standpoint, we view the recent sale of its entire 26.69% stake in Golden Eagle development for US$325mm positively. Acceleration of non-core assets divestments could help improve capital allocation (focus on where SU has competitive edge only), while addressing any remaining balance sheet concerns. Furthermore, with a ~$35/bbl breakeven price, higher downstream earnings, and continued cost/capital efficiencies improvement, SU is well positioned to generate strong FCF.

EVIDENCE

4Q20 and 1Q21 represented the best sequential quarter SCO production performance in company history. SU expects its FY21 production to average 740-780, mboepd, or up ~9% YoY (based on mid-point) with WTI price assumption of $60/bbl. SU posted 1Q21 volumes of ~786 mboepd and we believe the company would likely beat the mid-point of the guidance on continued strong contribution from SCO operations and In-Situ (primality driven by Firebag/back half loaded). Our model reflects total production of ~770/796 mboepd and WTI at ~$62/$58 per bbl for FY21/22, respectively. SU's higher utilization and performance in the recent quarter is indicative of its asset quality.

WHAT'S PRICED IN?

SU is currently trading at ~4.1x (~35% below five-year average). We believe the balanced allocation strategy and higher oil prices/cost efficiencies potential on FCF are not fully appreciated by the market. Some discount to higher prices makes sense as downstream earnings will lag in such environment but its superior refinery complexes and uplift from retail integration is the key.

RELATED RESEARCH

[1Q Beat on Downstream Earnings and Lower Costs](); [Updating Pricing; Revising Targets; US Production]();
[What's Gone Wrong? Is There a Catalyst?]()

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2022 WTI Price	2022 HH Price	P/FY22 CFPS Multiple
$50.0 upside	$65.78	$2.90	6.4x
$39.0 target	$58.28	$2.65	6.3x
$18.5 downside	$50.78	$2.40	3.8x

Source: UBS

UPCOMING CATALYSTS

Stabilization/Increase in commodity prices. Investor Day and 2Q21 Earnings: ESG and Solvent update, progress on assets utilization/reliability and planned turnaround activities, along with update on cost efficiencies and any color on potential non-core asset divestments.

FINANCIAL INSTITUTIONS

Banco Popular (BPOP)

Buy ($97 Price Target)

Brock Vandervliet, brock.vandervliet@ubs.com, +1-212-713-2382

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can BPOP grow NIM and NII despite the macro-economic issues facing Puerto Rico's Economy?

We see two major economic catalysts that should produce an inflection in Puerto Rico's economic growth which will improve improve profitability (+50 bps NIM) and loan growth (up to mid-single digit percentage rate). 1) The Puerto Rican debt re-structuring that will trigger $8bn of deposit outflows from BPOP in Q2'22 and 2) Disbursement of $12B of remaining US Federal Aid tied to hurricane relief.

Q: Can BPOP's capital level and future capital plans drive incremental EPS growth and ROTCE?

Yes, BPOP's CET1 ratio of 17% in Q1'21 was roughly 50% higher than peers. BPOP announced a $350mn accelerated share repurchase in April 2021 and we expect a succession of similar buyback plans producing a materially lower 11% CET1 ratio by 2023. This expands BPOP's ROTCE from under 11% to 13-14% by 2022.

UBS VIEW

Past economic uncertainties tied to government debt restructuring and release of Federal hurricane aid fare now poised to be resolved. One of the biggest projects, the LUMA power JV, is moving into its operational phase June 1 unlocking $750m in infrastructure spending annually. We expect these factors create the strongest growth seen in Puerto Rico in decades. For BPOP, the bank with over 50% market share on the island, this signals a period of higher loan and NII growth, capital return and higher ROTCE.

EVIDENCE

BPOP's valuation suffered from a number of macro headwinds that once lifted likely materially change the bank's return profile. The most prominent overhang is the $73B government debt restructuring which appears likely to be resolved by early 2022. Government deposits held at BPOP represent an outsized $14B+ or 26% of total deposits. The government deposit runoff we estimate of $8bn and associated low yield investment securities is accretive to NIM, and begins in 2022. The economic impact of $12B of Federal hurricane aid should have a powerful flywheel effect on the broader economy. Puerto Rico may become a domestic tax haven. With COVID creating more professionals able to "work from anywhere," 6,000 high income wage earners applied under Article 22 which allows US residents spending at least 180 days annually to enjoy a 4% income tax rate and zero capital gains rates as island residents.

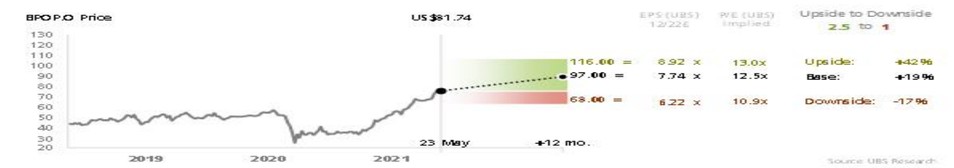
WHAT'S PRICED IN?

At just 1.2x BV and 10.5x our 2022 EPS forecast, BPOP trades at 3 turns below peers—the widest discount in our coverage. Our $97 PT is based on a target multiple of 12.5x 2022E.

RELATED RESEARCH

Expert Call Reinforces Bullish View on BPOP; Capital Plan Follow up & Developments Around Public Debt Restructuring

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Earning Asset Growth	Net Interest Margin	Efficiency Ratio	Provision
$116 upside	(2.0%)	3.35%	61.0%	0.68%
$97 target	(3.6%)	3.17%	62.6%	0.73%
$68 downside	(5.5%)	3.00%	64.0%	0.90%

Source: UBS

UPCOMING CATALYSTS

LUMA JV updates following the June 1 beginning its operational phase. Incremental news on debt restructuring tied to PREPA or other government entities. Incremental updates on the release of Federal aid and updates on the island economy.

Citigroup (C)

Buy ($98 Price Target)

Saul Martinez, saul.martinez@ubs.com, +1-212-713-2491

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Citigroup improve its ROTCE in the coming years?
Yes. After adjusting earnings to reflect net charge offs rather than loan loss provisions (see here for rationale), we estimate that Citigroup's ROTCE improves from an expected ~9% in 2021 to ~11% in 2024. The ROTCE improvement occurs despite forecasting a normalization from still abnormally high sales and trading and IB revenue in 2021. We expect growing card balances in the US, contained credit costs, and flattish to low single digit expense growth to allow for better core profitability.

Q. Can profitability in Global Consumer Banking (GCB) re-emerge?
We think ample room exists for pre-provision profitability to expand. Though revenue pressure from loan balance contraction will dampen revenue, we think deepening penetration of retail clients in the US, the re-emergence of card balance growth in the US, and efficiency improvements in Mexico suggest pre-provision profitability will expand. We forecast compound annual pre-provision net revenue to in the GCB (does not adjust for pending sales of select Asia and EMEA consumer businesses) grows 8.2% from 2021 to 2024.

UBS VIEW

Citigroup is the only large cap bank trading near price to tangible book value (1.01x) even after the sizable rally in late 2020 and YTD. We expect profitability increases to lead to P/TBV multiple expansion even as tangible book value per share grows high single digits annually in the coming years. We also believe the company is taking positive steps towards remediating deficiencies identified in the consent order and the recently announced sale of select Asian and EMEA retail banking businesses signals that the company is serious about allocating capital to businesses that can sustainably generate attractive risk adjusted returns.

EVIDENCE

51% of Citigroup's revenue came from outside the US in 1Q21, suggesting that accelerating global growth could boost revenue prospects. 18% of total loans and 35% of net interest income in 1Q21 came from North America Branded Cards and Retail Services, which could mean that re-emerging consumer loan balance growth will boost NII prospects. Global Consumer Banking ROTCE was ~16% in 2019, well below the 32% and 35% returns on allocated equity of consumer banking businesses of JPMorgan and Bank of America. This suggests opportunities exist to improve profitability.

WHAT'S PRICED IN?

Citi trades at 0.86x BV, a 49% discount to peers (JPMorgan and Bank of America).

RELATED RESEARCH

An honest and frank discussion: takeaways from meeting with incoming CEO Jane Fraser; Mixed first take on 1Q21 results, but announcement to exit subscale consumer franchises a positive

UPSIDE / DOWNSIDE SPECTRUM

Value drivers 2021/2022	Revenue growth	Efficiency ratio	Cost of credit	ROTCE
$129 upside	0-4%	58%	15-65 bps	12-15%
$98 base	(-3)-1%	61%	25-85 bps	9-11%
$68 downside	(-11)-0%	66%	35-105 bps	7-9%

Source: UBS

UPCOMING CATALYSTS

2Q21 earnings, CCAR results in June.

Morgan Stanley (MS)

Buy ($98 Price Target)

Brennan Hawken, brennan.hawken@ubs.com, +1-212-713-9439

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will the ETFC integration provide an accelerant to MS's WM business?
Yes, we see several paths for ETFC to drive stronger growth within WM, including: 1) scaling ETFC's digital banking capabilities, 2) leveraging the stock plan business to capture greater NNA, 3) penetrating the ETFC customer base with lending and AM products, and 4) international expansion for ETFC within MS's footprint. Additionally, ETFC accelerates the firm's strategic mix shift towards the more durable wealth and AM channels while reducing reliance on the less predictable Securities business. This shift reduces capital intensity, improves growth prospects, and enhances cross-divisional opportunities.

Q: Will EV provide strategic benefits beyond greater scale in AM?
Yes, MS is positioned to capitalize on the integrated offering in AM and achieve revenue synergies. Specifically, we view Parametric (custom and self-indexing) as a differentiated solution with strong organic growth prospects in MS's advisor-led WM business (where Parametric products already flow well) as well as ETFC's digital offering, which can facilitate direct indexing via fractional share ownership. Further, MS and EV distribution capabilities complement each other well, as MS is strong internationally, while EV is strong domestically. The risk to the deal is slowing growth into other full-service competitor platforms, although that risk seems low given EV's products are predominantly held in fiduciary (i.e., fee-based) accounts.

UBS VIEW

We view MS as well positioned to see accelerating growth in its wealth and asset management business. Specifically, we see MS's dominant stock plan business driving 0.6% to 1% additional NNA growth purely via ETFC's retention rates and that incremental growth could nearly double if MS can achieve similar retention rates across that entire business. We also see robust opportunities for growth accelerating in asset management via the international distribution opportunity for EV and for MSIM domestically. We believe MS's shifting earnings mix warrants a higher valuation multiple.

EVIDENCE

Our sensitivity analysis indicates a P/E valuation range of 9.2x (based on near-trough levels for both brokerage and WM) to 14.9x (bull case for both). However, we see a more realistic multiple range of 10.5x to 14.2x based on a blended multiple of WM [illegible] and institutionals [illegible]ly, we believe current valuation should be skewed to the upper end of the range given pending rate tailwinds (similar to what we have seen with other WM stocks.)

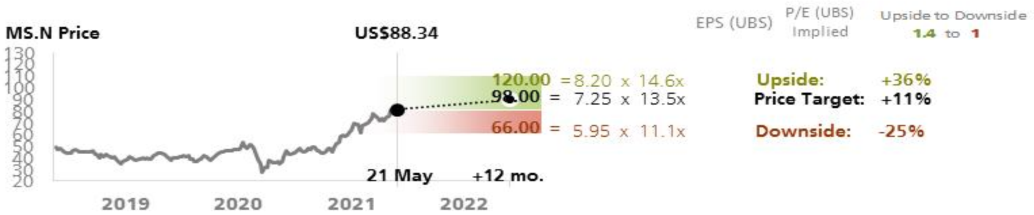
WHAT'S PRICED IN?

We believe recent multiple expansion is supported by the shifting earnings mix at MS and therefore we view this as sustainable. However, we believe consensus estimates for MS
drive further upside in MS shares.

RELATED RESEARCH

"Mgmt meeting takeaways: Accelerating the strategy and primed to return capital"
"Re-rating in progress: Higher multiple supported by fundamentals, shifting earnings mix"
"10+% Organic growth in WM; NII accelerating already driven by loan growth; strong ISG results"
"Formalized succession confirms expectations; Multiple generations of leadership clarified"

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	ISG revenue Y/Y growth	ISG expense ratio	WM revenue Y/Y growth	Yield on WM client assets	WM expense ratio
$120 upside	5.0%	68.0%	17.1%	0.65%	69.5%
$98 target	-2.6%	70.2%	7.9%	0.61%	71.1%
$65 downside	-10.0%	73.0%	-10.1%	0.56%	74.0%

Source: UBS

UPCOMING CATALYSTS

2Q21 earnings

NASDAQ (NDAQ)

Buy ($190 Price Target)

Alex Kramm, alex.kramm@ubs.com, +1-212-713-4060

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will non-transaction organic growth remain at elevated levels?
Likely. The company's targeted 5%-7% (6%-9% including Verafin) medium-term outlook remains intact, and we forecast +13.1% in 2021 and +8.7% in 2022 (including Verafin).

Q: Will the transaction business be able to support near-term growth?
Yes. While the company has shifted its business mix toward non-transactional revenues, trading businesses still account for ~25% of the total and could swing performance either way in a given quarter. We think elevated volumes are likely to persist, and we model a ~4% increase for Market Services in FY21.

UBS VIEW

We upgraded NDAQ to Buy from Neutral at the beginning of the year, as 1) it appears US cash equities and equity options strength is sustainable, and Index trends remain robust; 2) we expect non-transaction organic growth to remain elevated in the near term; and 3) we believe the Verafin acquisition can accelerate organic growth further, though the deal is mildly dilutive in the near term. We also see potential for robust multiple expansion longer term, particularly as organic growth improves and NDAQ's non-transaction revenue mix (pro forma for Verafin) rivals higher-multiple information services peers.

EVIDENCE

NDAQ's subscription businesses have grown to approximately 75% of total revenues over the last few years. These businesses also have impressive retention rates, often exceeding 90%, which limits top-line variability while growing organically at a decent clip. The company's strategic pivot to allocate capital to its fastest growing businesses (Investment Intelligence & Market Technology) has been well-received and has driven non-transaction organic growth in recent quarters (+9.2% on average between 1Q18-1Q21). The pending acquisition of Verafin brings NDAQ's organic growth profile to 6%-9%, while pro forma non-transaction revenues (~76% FY22e) rival the recurring revenue mixes seen at other information services peers.

WHAT'S PRICED IN?

Despite the high mix of non-transaction revenues and a robust organic growth profile, NDAQ trades at a discount to both its exchange peers and more importantly, information services companies. We think investors have yet to fully appreciate the business mix and NDAQ's ability to reposition as a SaaS company.

RELATED RESEARCH

Meeting Takeaways with NDAQ CEO; Upgrade to Buy

UPSIDE / DOWNSIDE SPECTRUM

Value drivers (FY22e)	Market Services Organic Growth	Corp. Platforms Organic Growth	Investment Intelligence Organic Growth	Market Tech Organic Growth	Core Operating Margins
$225 upside	+7.0%	+7.0%	+15.0%	+25.0%	53.8%
$190 base	+3.5%	+3.4%	+7.7%	+17.6%	52.7%
$105 downside	-10.0%	-1.0%	+2.0%	+10.0%	47.4%

Source: UBS

UPCOMING CATALYSTS

Verafin performance and ability to grow its client base with larger US banks and/or European clients; May volume release; listing trends; 2Q21 earnings in late July/early August

Prologis (PLD)

Buy ($143 Price Target)

Brent Dilts, brent.dilts@ubs.com, +1-212-713-1841

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will PLD beat its core FFO/sh guidance of $3.96-$4.02 this year?
Yes, we estimate PLD's core FFO/will be $4.04 this year and expect the company to report at least one more beat and raise quarter this year following 1Q's beat and raise quarter. The primary drivers of our above guidance core FFO/sh estimate for this year is higher net effective rent growth and a faster ramp in occupancy levels due to very favorable supply/demand conditions in PLD's markets.

Q: Can PLD beat the consensus core FFO/sh growth estimate of 29% through 2024?
Yes, we expect PLD to see core FFO/sh growth of 41% driven by accelerating ecommerce and a buildout of the supply chain that leads to 10% more inventory being carried in warehouses. Consensus largely appears to price in these positive tailwinds through 2022 but then drops core FFO/sh growth to a CAGR of about 5% for '23-'24 while we estimate a CAGR of 10%, in line with the company's trailing 10-yr core FFO/sh CAGR.

UBS VIEW

We like PLD due to the company's global footprint, including a dominant position in the US and an attractive portfolio spread across Europe and APAC, its strong credit rating and liquidity position, and strategic capital business. The company is particularly well positioned to benefit materially from accelerating ecommerce and a build out of the supply chain and faces relatively limited supply risk in its markets. We rate PLD a Buy and our price target of $143 assumes a 30% premium to our 24-month forward NAV est of $110.21/sh.

EVIDENCE

PLD stands to benefit materially from accelerating ecommerce and a build out of the supply chain, with our estimates calling for 39%-76% upside to NOI over the next 4 years. The UBS retail team estimates that ecommerce could increase to 31% of US retail sales by 2025 (vs 15% pre-COVID-19) and our analysis finds that ecommerce requires 3x+ the logistics space of traditional brick and mortar. In addition, inventories could increase by 10% to make the supply chain more resilient, creating potential annual demand of 285-570 MSF (avg 250-300 MSF of new supply hits the US market per year) over each of the next 4 years.

WHAT'S PRICED IN?

In the near-term consensus is largely in line with the company's guidance though as noted above we believe the company will beat that this year. In 2022 we are 1% above consensus on a core FFO/sh basis but in 23' and '24 we believe consensus only prices in the 13%+ in place to market rent growth, but does not price in a further increase in ecom penetration or further demand driven by supply chain resiliency efforts.

RELATED RESEARCH

PLD initiation, UBS Ecommerce Logistics Day Takeaways

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Rental rev growth	Property exp growth	Cap rate	NAV prem/discount
$184 upside	18.0%	7.5%	4.0%	35%
$143 target	14.0%	7.0%	4.5%	30%
$88 downside	6.0%	3.0%	5.0%	0%

Source: UBS

UPCOMING CATALYSTS

NAREIT in June, 2Q21 earnings in July (possible raise to FY guidance), 3Q21 earnings in October, UBS Global Real Estate Conference in late November/early December

Reinsurance Group of America (RGA)

Buy ($150 Price Target)

Brian Meredith, brian.meredith@ubs.com, +1-212-713-2492

Michael Ward, michael.a.ward@ubs.com, +1-212-713-3518

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: How will US COVID mortality impact near-term earnings?
Our analysis suggests that there have been 590k US COVID deaths thus far, implying roughly 31k in 2Q21 halfway through the quarter (as of May 23). If we assume 2Q21 US COVID deaths end up around 60k, using the midpoint of RGA's US COVID sensitivity, this translates to ~$1.35 p/s of excess US mortality claims in 2Q. We note 60k US COVID deaths in 2Q would be even lower than 3Q20 which was the lowest quarter on this metric, when RGA beat consensus by +95% (reported $3.51 vs. cons. $1.80). More than halfway through the current quarter, we believe COVID deaths appear to be slowing significantly, in large part driven by vaccinations; CDC data shows that 120m Americans have received their second dose thus far, or 36% of the population. RGA expects COVID mortality impacts to decline through the remainder of 2021.

UBS VIEW

While there could be COVID-related underwriting volatility heading into 2Q, we do not believe this should impact valuations or forward estimates, particularly for 2022E, off which our price target is based and which we believe investors should be contemplating within valuation for RGA. The market is too-heavily discounting the 1Q21 earnings miss, in our view, and we highlight the fact RGA absorbed the worst COVID mortality quarter by far (roughly 215k US deaths) without recording a GAAP net loss – book value excl. AOCI actually grew 1$ sequentially in the quarter to ~$134 per share. Thus, we see no change to RGA's earnings power or financial position that would warrant its recent multiple compression. We believe this is an attractive buying opportunity for the stock, particularly given the improving COVID mortality outlook.

EVIDENCE

The 1Q21 $1.24 headline loss was worse than expected, and included an LP accounting correction adding +$1.03. We exclude these to determine an underlying $3.00 run-rate. Excl. this and COVID mortality, this run-rate was notably better than typical 1Q for RGA of $1.80 since 2013. RGA has maintained its sensitivities for pre-tax mortality claim costs per 10k deaths of $15-25m for the U.S., $4-6m in the U.K., and $10-15m in Canada. We incorporate these impacts for 2QE and are roughly in line w/ cons. $2.21.

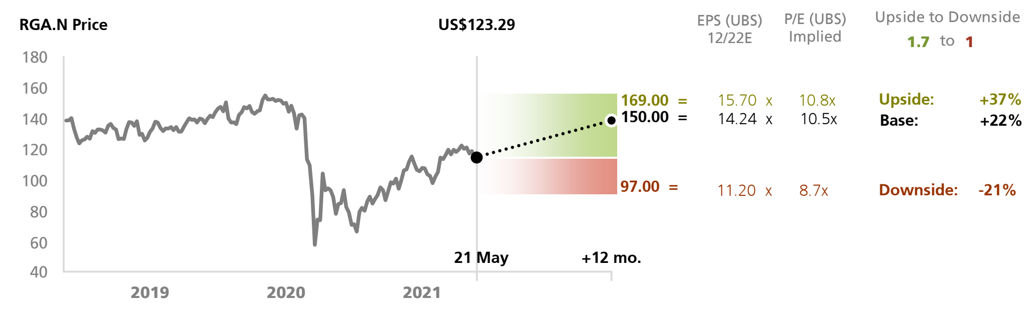
WHAT'S PRICED IN?

Since 1Q21 earnings, RGA is down 8.3%, trading at 8.9x cons. 2022 EPS, down from 9.7x pre-earnings. In our view, this multiple compression is not warranted given the improving outlook for COVID mortality due to vaccinations. Our $150 price target is based on 9.3x our '22E EPS of $14.24 (in line with RGA's avg. P/E multiple since 2018 of 9.3x, below hist. avg. 10x), which we then adjust for cost of equity, subtract NTM common dividends per share, and add 50% of excess deployable capital per share of $9 currently ($1.2b).

RELATED RESEARCH

RGA Upgrade to Buy; 1Q21 Earnings First Read; Life Earnings Wrap 1Q21

UPSIDE / DOWNSIDE SPECTRUM



Source: UBS

UPCOMING CATALYSTS

Potentially better than expected mortality results for 2Q21 and/or COVID outlook; any evidence that COVID has pulled-forward future life claims; resumption of buybacks; accretive deployment of $1.2b excess capital

W.R. Berkley (WRB)

Buy ($90 Price Target)

Brian Meredith, brian.meredith@ubs.com, +1-212-713-2492

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: How much will premium growth accelerate in 2021?
We are conservatively forecasting 13% growth in companywide net premium written as WRB benefits from the "hard" commercial lines pricing environment and economic growth. Approximately 31% of WRB's premiums come from the Excess and Surplus (E&S) lines market which is experiencing among the best fundamentals with double digit price increases, share gains from the standard market, and additional growth likely as new businesses are formed as the economy reopens in 2021.

Q: Is there upside to consensus from margin expansion?
Yes. Consensus estimates are currently looking for 200 bps of underlying margin improvement in 2021 and only 30 bps in 2022. Current rate increases in excess of loss trend would imply 300 to 400 basis points of underlying loss ratio improvement over the next 12 to 18 months while accelerating premium growth should provide expense leverage driving WRB's expense ratio meaningfully lower (consensus is only looking for a roughly flat expense ratio through 2022). Every 100 bps of underwriting margin is equal to $0.35 per share of EPS in 2022, by our estimate, or 8% of earnings.

UBS VIEW

We believe WRB is among the biggest beneficiaries of the "hard" commercial lines pricing cycle. We see premium growth acceleration in 2021 as it benefits from double digit price increases and exposure growth. With pricing 500+ basis points in excess of loss trend and accelerating growth, we conservatively expect underlying underwriting margin expansion of 200 basis points in 2021 and 90 basis points in 2022. We estimate this will drive double digit EPS growth and improving ROEs through 2023. We expect underwriting margin expansion to beat expectations over the next twelve to 18 months driving upward EPS estimate revisions. Additionally, WRB has among the shortest duration fixed income investment portfolios with any meaningful rise in interest rates likely to contributing to earnings upside and improving ROE's.

EVIDENCE

During the "hard" commercial lines pricing cycle of the early 2000's, WRB generated a 35% CAGR in NPW from 2000 through 2004. Moreover, during the "hard" market of the early 2000's, WRB generated over 18 points of underwriting margin improvement and over 25 points of underlying underwriting margin improvement from 2000 to 2004. During the "firm" market of 2011 – 2013 WRB generated more than 400 bps of underlying underwriting margin expansion. As of 1Q21, WRB was achieving price increases of 12.8% x/ workers comp., well in excess of loss trend.

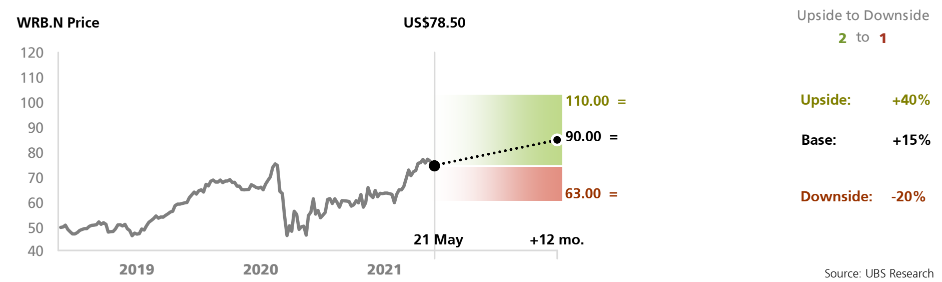
WHAT'S PRICED IN?

Our 2022 EPS estimate is 5% above consensus due to higher than consensus net premium written growth and underwriting margin expansion. WRB's current P/E on one-year forward estimates is in line with its 10 year average and down 29% from its peak in Sept. 2019. It appears its shares are already discounting the deceleration in commercial lines price increases..

RELATED RESEARCH

[Don't underestimate growth and margin...]

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	NPE growth	Combined Ratio	ROE x/ AOCI	Reserve dev (Favorable) / Unfavorable
$110 upside	14.6%	89.2%	12.7%	-0.5%
$90 target	11.6%	90.1%	12.3%	-0.1%
$63 downside	9.6%	91.7%	10.5%	0.9%

Source: UBS estimates

UPCOMING CATALYSTS

2Q21 Earnings

HEALTHCARE

Arvinas, Inc (ARVN)

Buy ($123 Price Target)

Eliana Merle, eliana.merle@ubs.com, +1-212-713-1086

UBS Research MAP THESISa guide to our thinking

PIVOTAL QUESTIONS

Q: What is the opportunity for PROTAC and protein degradation as a novel modality?
We see significant underappreciated potential for targeted protein degradation as a novel modality able to reach the ~80% of therapeutic targets that remain "undruggable". ARVN is a key pioneer in the field and we think expertise in degradation, particularly heterobifunctional molecules (PROTACs), will be a key advantage.

Q: Where does ARV-471 fit into the oral SERD landscape and how large is the overall class?
We think the potential for ER degrader, ARV-471, remains underappreciated. We estimate $3.2B in peak unadjusted sales at 65% success (~$2B adjusted). We think the oral SERD class broadly has potential to become a new backbone of therapy in ER+ breast cancer (~70% of all cases). We think ARV-471 has best-in-class potential as a PROTAC offers potential for much more potent ER signaling control vs. small molecule inhibitors.

Q: Will degrading (vs. inhibiting) AR drive a clinically meaningful difference in prostate cancer ARV-110?
In the molecular subgroup population, we think ARV-110 has a high likelihood of clinical success and a fast path to market with registration program under way. Long term, we also see a meaningful opportunity to expand to broader, earlier-line patient population. We estimate $447M in peak unadjusted sales in T878 and H875 mutations at 65% success. We estimate $1.7B peak for 1L/2L mCRPC (all types) at 15% success.

UBS VIEW

We rate ARVN a Buy. We think oral SERD, ARV-471 (ER degrader) will highlight the benefits of degradation vs inhibition, and upcoming data in 2H21 will drive investors to assign more credit to both ARV-471 and the platform broadly. Another value driver is ARV-110 (AR degrader) in prostate cancer, which we think is also underappreciated.

EVIDENCE

The vast majority (80%+) of potential therapeutic targets still remain "undruggable" with existing technologies. Targeted degraders have shown degradation of targets that other modalities have been unable to inhibit. In breast cancer, greater reductions in ER signaling drive better efficacy (e.g. Fulvestrant dose response data). From the ER degradation assay data reported, though early, ARV-471 has reported much deeper ER degradation vs. competitor assets (~90%+ vs. ~30-50%). In prostate cancer, ARV-110 (AR degrader) PSA responses in T878 & H875 mutation patients show higher efficacy vs. AR inhibitors in this setting (~2-12%).

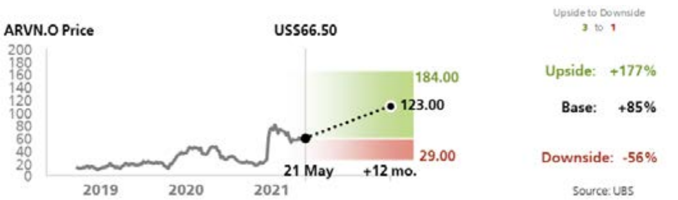
WHAT'S PRICED IN?

In our view, current trading prices in 1) a lower degree of confidence in clinical success & 2) smaller commercial opportunities for both ARV-471 and ARV-110 relative to our base case. From our model and valuation analysis, we estimate the stock's current price implies ~30-40% credit to ~$2-$2.5B in peak sales potential for ARV-471 and ~25-35% success to a genetic subpopulation in prostate cancer in the ~$500M-$1B peak sales range.

RELATED RESEARCH

Top Pick: Bullish degradation platform & near-term oncology proof of concept

UPSIDE / DOWNSIDE SPECTRUM



Value / share	ARV-471 POS	ARV-471 Peak Adj. Revenue	ARV-110 POS (all subtypes)	ARV-110 Peak Adj. Revenue
$184 upside	75%	$2,397M	42%	$1,231M
$123 target	65%	$2,077M	26%	$756M
$29 downside	25%	$799M	3%	$84M

Source: UBS

UPCOMING CATALYSTS

2H 2021: ARV-471 (oral SERD) updated Ph1 escalation data, initial CDK4/6i dose finding combo data; ARV-110 (AR degrader) Ph2 ARDENT trial interim data (mutation subgroups), updated Ph1 escalation data

Catalent

Buy ($138 Price Target)

Dan Brennan, daniel.brennan@ubs.com, +1-212-713-2317

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will COVID be a material headwind to growth, as vaccine production slows?
No. CTLT's COVID benefit will moderate, as the initial vaccination push wanes and we move from ~2 doses to single boosters. However, we see a strong F22 (CTLT on a June FY) with COVID growing YY. Beyond F22, we see COVID revenues stepping down (~30%) in F23 and then remaining stable YY around $400M+ (representing HSD% of revenues), given expected steady ongoing rate of vaccinations globally each year.

Q: Beyond COVID, is base biologics business at risk from growing capacity creating S/D imbalance?
No. Though capacity has been expanding globally amongst CMOs and Biopharma companies to meet the exceptional demand from COVID vaccinations (lesser extent therapeutics), CTLT has used the strength from COVID revenues & cash flows to largely accelerate existing capex plans hence the capacity is in place sooner. As well, our analysis of global S/D for biologics (MABs) points to a tight market with rising utilization thru 2025 despite capex additions given strong demand trends. For gene therapy, we continue to see a very tight market, benefitting CTLT.

UBS VIEW

CTLT remains one of the fastest top line and EBITDA growers in our Tools/Dx & Pharma Service universe over the next ~3+ years, driven largely by its biologic CMO business, with gene therapy carrying the highest growth rates. While the stock was a strong performer in 2020, YTD the stock has pulled back nearly 30% (and is flattish YTD), largely due to growing concerns over a COVID headwind. We are constructive on COVID's vaccine (and to lesser extent therapeutic) durability, which combined with solid base biologics business and improving trends in the ex-Biologic segments (which recently faced some headwinds), sets up for an attractive outlook for the stock.

EVIDENCE

Numerous expert calls regarding vaccine market outlook plus careful monitoring of vaccine developer capacity plans. Global supply demand analysis for biologics (MABs) which points to tightening utilization. Deep dive assessment of gene therapy market (~viral vectors) pointing to continued tight S/D outlook. Top down analysis of the global vaccine unit volume outlook supports our modeling of a ~(30%) step down in F23 COVID revenues once we moved past the initial WW vaccination rollout.

WHAT'S PRICED IN?

We calculated CTLT at current levels is reflecting a revenue growth thru 2023 ~(35%) below our assumptions, namely a growth of ~5.5% vs our model which reflects an average growth rate of ~8.5%

RELATED RESEARCH

UPSIDE / DOWNSIDE SPECTRUM

UPCOMING CATALYSTS

F4Q'20 Earnings, including initial F22 guidance. Ongoing updates concerning COVID vaccine/therapeutic WW dose outlook and CTLT's own positioning/outlook. Any updates concerning gene therapy market trends/outlook.

C4 Therapeutics Inc (CCCC)

Buy ($60 Price Target)

Colin Bristow, colin.bristow@ubs.com, +1-212-713-9949

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will CFT7455 demonstrate good efficacy/safety in the P1 multiple myeloma trial?
Yes, we believe the trial will readout positive based on, 1) C4 has shown compelling pre-clinical activity vs. current standard of care therapy, Revlimid and Pomalyst, in pre-clinical studies, 2) CFT7455's cereblon-based mechanism has been validated via Revlimid and Pomalyst, and 3) ARVN has shown protein degraders can be administered with adequate safety/tolerability.

Q: What is the size of the opportunity for C4 in Multiple Myeloma?
>$15bn. Multiple myeloma is a large market with 32k incident patients and 140k prevalent patients in the US alone. However, we note C4 is initially pursuing late-line MM, before moving up to earlier lines of therapy. Based on our proprietary MM revenue build, we model peak sales of $2.1bn in the US and $1.5bn in the EU, which consists of assumed participation in the 4L (40% peak share) and 3L (35% peak share) MM markets. We assign a 35% probability of success to these revenues streams, higher than the average for a Ph1 oncology asset, due to lower-risk nature of this mechanism and platform in this condition.

UBS VIEW

We are poisitive on C4 given, 1) the protein degradation hypothesis has seen proof-of-concept via competitor ARVN's recent clinical data update, 2) our deep dive work supports our view that C4's cereblon-focused approach and strategy to target multiple myeloma is the lowest risk path to clinical success, and 3) our $60 price target is driven by a risk-adjusted valuation on the lead two assets (CFT7455 and CFT8634), with the additional pipeline programs (BRAF and RET) representing pure potential upside to our valuation.

EVIDENCE

We conducted an in-depth review of the pre-clinical data for C4's platform, the broader protein degradation space and the clinical data for ARVN's ARV-110. In addition, we spoke with KOLs, company management and built proprietary market models to derive our estimates for each disease indication.

WHAT'S PRICED IN?

Reverse engineering our model indicates C4's current trading range implies ~15% probability of success for CFT-7455 in both MM and B-cell lymphoma (MCL/PTCL), with no contribution from other programs. Contrast this to our model where we assume 35% probability of success for CFT7455 in MM, 15% in MCL/PTCL and 10% for CFT8634 in synovial sarcoma.

RELATED RESEARCH

AACR data update; Highlights & feedback from vNDR; Mini dive on cereblon-mediated resistance; Increasing Price Target to $60; The jewel in the degrader crown – Initiate at BUY

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	CFT7455 POS MM	CFT7455 POS MCL	CFT7455 POS PTCL	CFT8634 POS SS	EV
$132 upside	65%	30%	30%	20%	$132
$60 target	35%	15%	15%	10%	$60
$10 downside	0%	8%	8%	5%	$10

Source: UBS

UPCOMING CATALYSTS

1) CFT7455 trial initiation in MM – 2Q21; 2) CFT7455 for NHL preclinical data presentation at ICML, conference starting on Jun 18; 3) Competitor BMY Iberdomide's combo data (Iber+DVd or Iber+Kd) at EHA'21; 4) Submission for CFT8634 in synovial sarcoma – 2H21, 5) BRAF and RET programs expected to move into IND-enabling studies – 2021, 6) More updated competitor data of BMY's CC-92480 in 2022.

Denali Therapeutics (DNLI)

Buy ($70 Price Target)

Esther Rajavelu, esther.rajavelu@ubs.com, *+1-212-713 1461*

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: What is likely to be a meaningful catalyst for DNLI in the next 12 months?
In our view, DNL343 for Amyotrophic Lateral Sclerosis (ALS) is likely to get increasing investor attention over the next 6-12 months. If approved, it could treat ~90% of ALS patients, and as a wholly owned asset could contribute meaningful upside to the stock. We estimate an addressable US/EU revenue opportunity of ~$8.2B, and model ~$4.9B in unadjusted peak sales.

Q: Could DNL310 treat both neuropathic and peripheral symptoms in MPS-II patients?
Yes. We believe it is highly likely that DNL310 could be effective in treating both CNS and peripheral manifestations of MPS-II. We assume 75% likelihood of approval for DNL310, and estimate ~$640M unadjusted revenues at peak.

UBS VIEW

Our Buy thesis on DNLI is based on our view that the company's wholly owned assets, DNL343 for ALS and DNL310 for MPS-II present opportunities for near-term value inflection as 1) investors review DNL343 Phase 1 data and better appreciate eIF2B as a potential target for ALS, and 2) DNL310 demonstrates proof of concept for the company's Enzyme Transport Vehicle platform. We are positively skewed on DNL343 progressing into Phase 2 trials over the next twelve months.

EVIDENCE

DNLI's in vitro studies show DNL343 disaggregates TDP-43 clusters within 100 minutes, and interim data in healthy volunteers showed reduction in stress gene expression. Separately, preclinical studies of other eIF2B activators (e.g., ISRIB and 2BAct) indicate activating eIF2B can relieve chronic stress response triggered by protein misfolding and aggregation in neuronal cells and prevent neurodegeneration and/or cell death.

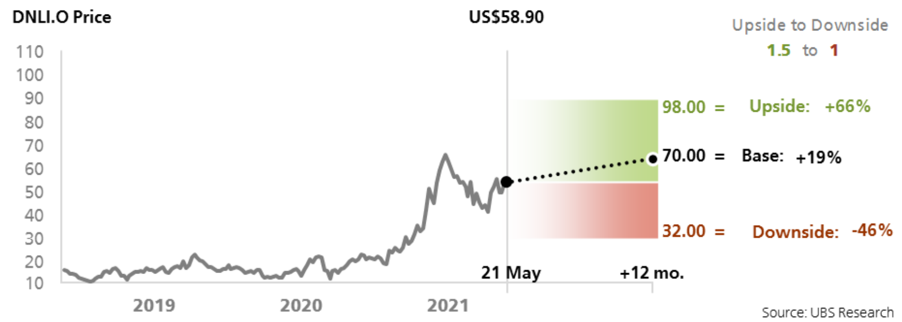
WHAT'S PRICED IN?

Based on our valuation construct, we estimate the market is pricing in 1) 10% likelihood of approval for DNL343 (ALS) and 20% peak patient share, 2) 10% likelihood of approval for DNL310 (MPS-II) and 10% peak patient share, and 3) 20% likelihood of approval for DNL151 and 60% share of the LRRK2 mutated PD patients.

RELATED RESEARCH

NTM Value Inflections Likely Tied to Wholly Owned Pipeline; Initiate Buy

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	DNL310 LOA	DNL343 LOA	DNL151 LOA	Unadjusted peak sales	Adjusted peak sales
$98 upside	90%	50%	20%	18.6B	5.7B
$70 base	75%	20%	20%	18.4B	4.0B
$32 downside	75%	0%	20%	5.4B	1.1B

Source: UBS

UPCOMING CATALYSTS

DNL310 Phase 1/2 6-month data from Cohort A; DNL343 Phase 1 data in normal healthy volunteers & Phase 1b initiation with ALS patients.

DexCom (DXCM)

Buy ($500 Price Target)

Matt Taylor, CFA, matthew-c.taylor@ubs.com, +1-212-713-6257

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can DXCM continue to achieve 20%+ revenue growth in the medium term?
Yes. DXCM's core intensive market has room for continued penetration and it could benefit from OUS expansion and coverage for new markets (T2, prediabetic, hospital use). We see room for multiple winners in this large TAM and forecast 2021E/ 22E/23E sales growth of 22%/ 23%/ 20%, respectively.

Q: Can DXCM maintain margins despite mix/pricing pressure?
Yes. While DXCM will face headwinds from mix and competition, its track record shows it can manage these challenges and still grow margins. Looking forward, our base case is flattish margins through '25 but there could be upside.

Q: Can DXCM's G7 compete effectively with ABT and MDT?
Yes. We think G7 will compete effectively with ABT's products and stay ahead of MDT. In our view, G7's small size, accuracy, and potential for lower cost will make it attractive.

UBS VIEW

DXCM's growth can come from further penetration in the T1/IIT2 groups, broader T2 use, OUS expansion and new markets like in hospital monitoring. Further, given progress on manufacturing, we think DXCM will be able to offset margin pressure and use its lower cost base to expand into price sensitive markets. We see the 2H21 as catalyst rich, given a doubling of the US sales force, more DTC, ability to trial, and G7.

EVIDENCE

In the last UBS Evidence Lab Diabetes survey, doctor' estimates imply strong DD growth. Our expert calls have been constructive for DXCM as doctors view G7 favorably (Dr. Andzel, Dr. Katselnik) and prefer G6 for intensive patients generally. G7's features are attractive (Dr. Katselnik) and it could leapfrog ABT's Libre 2 (Dr. Dempsey). Further, MDT remains at a competitive disadvantage (Dr. Tamler).

WHAT'S PRICED IN?

Cons. models a sales CAGR near the high end of DXCM's forecast 15-20% range through '25 and ~65% GM in '25. We see the potential for upside on both fronts.

RELATED RESEARCH

Room for Multiple Winners; Growth Algorithm Intact; Upgrading to Buy; Investing in Future Growth in Scale, OUS, DTC Sales, R&D; G7 On-Track for 2H Launch; 1Q Beat; Guidance Raised; US Momentum Accelerated; G7 On Track; UBS Evidence Lab Diabetes Survey Wave 8

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	Avg. Rev. Growth 2021-2022E	2022E EBIT Margin	G7 Approval	CGM Market Growth
$550 upside	26.9%	15.8%	2H21	>30%
$500 base	22.9%	14.8%	2H21	20-30%
$250 downside	19.9%	13.8%	Early '22	<20%

UPCOMING CATALYSTS

G7 preliminary clinical data (ATTD 2021 6.2-6.5), Insulet's Omnipod 5 insulin pump launch (2Q21), 2Q21 earnings (late July), DXCM G7 launch (2H21)

Quest Diagnostics (DGX)

Buy ($158 Price Target)

Kevin Caliendo, kevin.caliendo@ubs.com, +1-212-713-3630

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can DGX accelerate top-line growth to MSD beyond 2022?
We model MSD top-line growth beyond 2022 comprised of LSD organic growth and M&A contribution. We think COVID has accelerated share gains (with DGX/LH outcomping peers by ~700bps/~400bps in 2020) and note there are several meaningful sources of LT share gains (Preferred Lab Services and Market Access) that in our view make LSD organic growth a potential conservative floor. Also, increasingly stable Commercial payer pricing (echoed by both DGX and LH upon recent large payer renewals) limits top-line pricing offsets.

Q: Can DGX expand margins LT beyond COVID?
We model Dx OM to expand 40bps in 2023E/2024E in line with implied LT guidance for MSD LT revenue growth and 7%-9% LT EPS growth. Post PAMA 2022E, we expect Invigorate savings of +$200M to more than offset ~$100M of annual wage growth and the 100bps of annual pricing pressure. We also bake in $500M-$600M of annual buybacks (not factored in LT EPS guidance) driving low-teens EPS growth in 2023E/2024E.

UBS VIEW

With DGX's core top line growth poised to accelerate beyond 2022E vs. a 1.5% 5-yr. avg. pre-COVID, we believe a higher multiple is warranted. As COVID testing slows, we believe industry fundamentals are as healthy as they have been in 15 years. Though the pace of COVID testing declines will make NT earnings choppy, we think there is enough visibility into the post-COVID operating environment and valuation disconnect vs. the broader market to step in now.

EVIDENCE

We base our thesis on conversations with industry participants/competitors, proprietary analyses of company data, and data from XIFIN, a HCIT company that processes more than $40B of Dx claims annually. Using those, we have built detailed COVID Testing Market Models and LT Rev./EBIT bridges.

WHAT'S PRICED IN?

We think the relative underperformance of DGX shares is reflective of investor concern around a rotation out of "COVID beneficiaries" during a recovery/reopening trade. We view this as overly short-term focused, and think DGX should rerate to relative valuation more in line with historical averages as the story shifts more significantly to a return to base business growth drivers in heading into 2022E.

RELATED RESEARCH

Rating Upgrade; Takeaways from Non-Deal Roadshow; Lab Testing Data; COVID Testing Market Dynamics

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2022E Diagnostics Volume Growth	2022E Change in Revenue Per Req	2022E Diagnostics EBIT Margin	Applied NTM P/E Multiple
$209 upside	-0.8%	-5.6%	18.9%	20.0x
$158 target	-1.2%	-7.6%	17.9%	18.0x
$99 downside	-3.2%	9.6%	16.9%	14.0x

Source: UBS

UPCOMING CATALYSTS

2Q21 earnings (late July), weekly XIFIN data, Updates and Potential Modifications to PAMA in the Fall

TECHNOLOGY, MEDIA & TELECOMMUNICATIONS

Apple Inc. (AAPL)

Buy ($155 Price Target)

David Vogt, david.vogt@ubs.com, +1-212-713-4296

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Apple enter the BEV market and take at least 5% unit share?
Yes, likely in our view. We expect Apple's platform strategy and share in the global PC and smartphone markets should enable Apple to introduce a BEV and achieve a minimum 5% share in the BEV market. The combination of its technological capability supported by its retention metrics from our UBS Evidence Lab surveys indicates customer satisfaction remains high for Apple products suggesting Apple's brand equity should drive an S-curve adoption in the BEV market.

Q: Can iPhone unit demand stabilize around pre-COVID levels the next three years?
Yes, we expect average iPhone unit demand of ~218M over the next three fiscal years (FY21-FY23), in-line with average iPhone units between FY15-FY19. Moreover, the stickiness of the ecosystem and high attach rates of other Apple products should create a strong iPhone platform going forward.

UBS VIEW

We believe Apple's cash flow will enable the company to enter the battery electric vehicle (BEV) market. Over the next ten years, we forecast the auto market will likely transition to almost 100% EV opening up a > 90M unit market to new entrants. Although Apple is not the first mover, its significant resources should enable the company to be a "fast follower" in time for the steep portion of the S-shaped adoption curve. Our base case assumes Apple captures 8% of EV units in 10 years with operating margins approaching 15%.

EVIDENCE

UBS Evidence Lab survey data indicates high customer satisfaction for iPhones with a retention rate of 86%. We believe the smartphone market growth following iPhone launch and Apple's share gains offer a useful analogue to analyze the BEV market. Similar to the auto market, the global phone market was highly fragmented with smartphones with the iPhone capturing just 3% of smartphones in 2007. Over the following 10 years, iPhones followed an S-curve adoption resulting in Apple capturing >15% unit share.

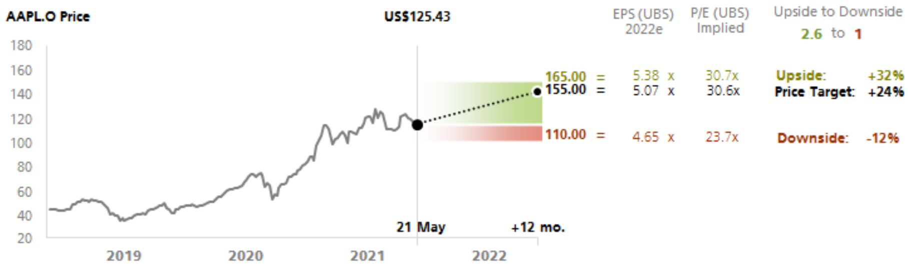
WHAT'S PRICED IN?

Apple shares are trading ~25x NTM P/E; four multiple turns lower relative to 6-months ago. As such, we estimate Apple's share embeds just 4.5% net income growth, down roughly 250 bps from 6-months ago.

RELATED RESEARCH

Go Ahead, Bite the Big Apple; Auto Optionality Offsets "Normal" iPhone Cycle. Upgrade to Buy;
UBS Evidence Lab inside: Apple Services Survey Highlights Stickiness of the Ecosystem
UBS Evidence Lab inside: Wearables exhibit stronger YoY attach rate led by the Apple Watch

UPSIDE / DOWNSIDE SPECTRUM



FY22 drivers	Revenue growth	Gross Margin	Operating Income growth	Operating Margin-	Diluted EPS
$165 upside	5.9%	40.5%	3.6%	27.7%	$5.38
$155 base	2.0%	40.2%	-2.4%	27.1%	$5.07
$110 downside	-2.3%	38.5%	-10.4%	26.0%	$4.65

Source: UBS

UPCOMING CATALYSTS

Apple WWDC Conference/Product launches June 7th, FY3Q earnings late July, future iPhone launch fall 2021

Arista Networks, Inc. (ANET)

Buy ($370 Price Target)

David Vogt, david.vogt@ubs.com, +1-212-713-4296

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can revenue grow at a 10% CAGR the next three to five years?
Yes. The trend of moving workloads to the public cloud should accelerate post-COVID. To meet this demand, we expect cloud hyperscale customers to accelerate investment in data center build outs. Arista should be a net beneficiary of this trend driving a five year revenue CAGR of 12% as 100G spend continues and a 400G upgrade cycle accelerates in H2 2021 driving material mid-teens revenue growth in CY2021 and CY2022.

Q: Can campus switching drive incremental revenue growth?
Yes. We expect Arista to be able to garner at least 2% market share in the campus switch market over the next four years adding roughly 1-2% of incremental revenue growth per year. UBS Evidence Lab survey work highlights customer interest remains high in deploying non-Cisco campus switches. As such, Arista's campus switching business should grow at a 23% CAGR the next five years.

UBS VIEW

We conservatively expect Arista to capture at least mid-to high teens market share in 400G driven by its technological capabilities and deep customer relationships with hyperscalers. As such we expect Arista shares to trade at $370 or 32x our CY22 EPS estimate of $11.53, a premium to Arista's trailing 3-year NTM P/E multiple of 28x to reflect a meaningful acceleration in revenue growth in CY21 and CY22.

EVIDENCE

Over the past five years, Arista has increased its market share in the high speed data center market by roughly 2% per year. In the important 100G market, Arista is the market leader capturing ~30% of the market compared to Cisco's ~20% share suggesting a high probability of success in 400G.

WHAT'S PRICED IN?

Arista trades at ~29x our '22 EPS estimate of $11.53, essentially in-line with Arista's trailing 3-year NTM P/E multiple of 28x. Excluding net cash, Arista trades three turns lower at just ~26x our '22 EPS estimate.

RELATED RESEARCH

Enterprise, Telco and Tier 2 Cloud Strength Creates Diversification away from Cloud Titans
Navigates Supply Chain Disruptions to Deliver Strong 1Q and 2Q Guide as 400G Waits in the Wings
Delayed by Not Forgotten. The 400G Cycle Should Drive Material Growth; Initiate with a Buy

UPSIDE / DOWNSIDE SPECTRUM

FY22 drivers	Revenue growth	Gross Margin	Operating Income growth	Operating Margin-	Diluted EPS
$386 upside	20.0%	63.1%	16.7%	36.8%	$12.08
$370 base	13.4%	64.1%	11.3%	37.2%	$11.53
$285 downside	0.0%	62.7%	-5.3%	35.9%	$9.82

Source: UBS

UPCOMING CATALYSTS

Annual Meeting June 1st, Arista Q2 earnings early August, Microsoft and Facebook earnings July 2021

Micron Technology Inc (MU)

Buy ($120 Price Target)

Timothy Arcuri, timothy.arcuri@ubs.com, +1-415-352-5676

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Is MU well positioned in DRAM?
Yes. We think MU is well positioned four reasons. First, MU DRAM is benefiting from a structural demand inflection from (Cloud, AI, 5G) that is translating to a sustainable demand bit growth of ~20%. Second, Supply remains constrained and we expect the industry to remain undersupplied through C2022. Third, as contract pricing follows spot pricing higher, Hyperscalers' order profile could become less cyclical as they attempt to replenish depleted inventories and engage in discussions on longer term supply agreements. Finally, MU is closing the gap to Samsung on costs (MSD-HSD Y/Y in FY21) and DRAM GMs should inflect in to 60% + range sustainably. All of this should ultimately translate into solid through-cycle FCF ~$10.5B.

Q: How is MU positioned in NAND?
Near term ASP strength notwithstanding, longer term supply/demand fundamentals remain weak as NAND remains crowded with multiple vendors, with MU needing scale in NAND to truly drive sustained margins. Rather than waiting for consolidation, MU is executing to what it can control – costs downs should improve to well above mid-teens Y/Y levels into FY22, even as MU drives high value bits despite the high barriers to entry in Enterprise SSD (PCIe/SAS)

UBS VIEW

MU is well positioned to benefit from structural inflections in DRAM demand from Cloud/AI/5G even as supply remains heavily consolidated. ASP tailwinds and solid cost down trajectory should translate into sustained ~55%+ GMs and robust through cycle FCF ~$10.5B. Ultimately, MU is an improved house in an improved neighborhood and this argues for a much higher multiple than is presently being accorded by the market. MU is our top semis idea for 2021.

EVIDENCE

UBS Supply/demand analysis suggests that DRAM will remain undersupplied by ~2% through C2022. This is already translating into a favorable pricing environment as evidenced by spot/contract pricing data.

WHAT'S PRICED IN?

Our client conversations suggest that there is still healthy skepticism around GMs peaking on account of historical cyclicality in the memory industry. The stock is keyed to GMs, suggesting to us that our view is yet to be fully priced in.

RELATED RESEARCH

Micron Technology Inc "Tech Tour Takes: Raise Target Again, to $120" (Buy)
Micron Technology Inc: Contract Pricing About To Gap Much Higher; Raise Target to & Re-affirm Buy.

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	C21/C22 DRAM Bit Growth Y/Y	C21/C22 NAND Bit Growth Y/Y	C21/C22 DRAM ASP Y/Y	C21/C22 NAND ASP Y/Y	Norm FCF	P/TBV	EV/FCF
$150 Upside	22% / 26%	40% / 38%	28% / 20%	-5% / -5%	$ 13,630	3.0x	16x
$120 Base	18% / 21%	34% / 34%	23% / 17%	-10% / -9%	$ 10,752	2.5x	15x
$60 Downside	15% / 15%	25% / 25%	10% / -10%	-45% / -30%	$ 3,590	2.0x	14x

Source: UBS

UPCOMING CATALYSTS

Pricing will be the story the next few Qs as MU is now fairly constrained in its ability to grow bits in both DRAM and NAND.

Microsoft (MSFT)

Buy ($300 Price Target)

Karl Keirstead, karl.keirstead@ubs.com, +1-310-734-2455

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Azure Growth Remain 40%+ Through Year-End?
Yes. Our customer and partner checks suggest that a faster pace of migrations to the public cloud model may be the #1 tech priority over the next 12-24 months, enabling Azure growth to hold firm or decelerate only modestly through year-end from a base of 46% c/c growth in March 2021 quarter.

Q: Can EPS Growth Remain 20%+ for Several Years?
Yes. MSFT shares embed an assumption that 10-15% growth and continued margin expansion can lead to 20%+ EPS growth for years to come. With the high-growth segments such as Azure and Office 365 becoming a larger share of the revs mix and no obvious source of margin pressure, we have confidence in this outlook

UBS VIEW

MSFT shares may be a consensus long, but we like the stock based on our conviction in the Azure growth story, <15% of the revs mix but a dominant part of the overall story and a business that is tethered to what may be the dominant tech trend for the next 10 years. A more subtle positive is that more large enterprises are standardizing on MSFT given feature functionality improvements that MSFT has made across its entire suite. This, combined with solid cost control, should support a 30x FCF multiple for the foreseeable future.

EVIDENCE

We are in regular dialogue with enterprise CIOs and CTOs, who share with us their IT spending plans, which in most cases includes an ever-larger share of wallet going to MSFT. We also speak regularly with MSFT's large channel partners, the majority of which sound positive about future growth for their MSFT practices.

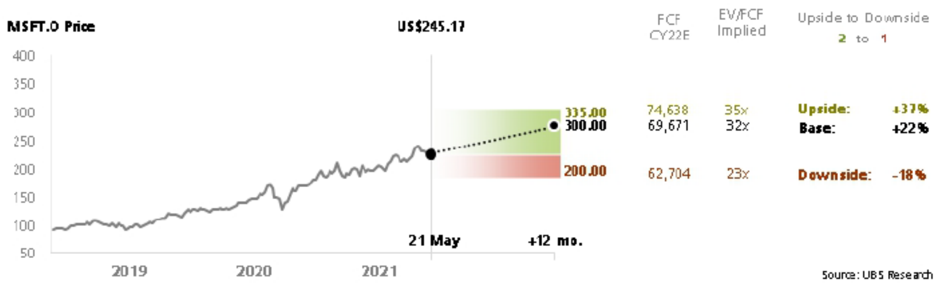
WHAT'S PRICED IN?

At ~30x forward FCF, the consensus view of MSFT is that it can continue to grow revs at 10%+ and EPS by 20% for the next 3+ years. In our view this outlook appears conservative.

RELATED RESEARCH

"Hey, Where's My Digital Acceleration?", "Less Revs Upside, But We're Still Positive", "Cloud Infrastructure: 1Q21 Preview of AWS, Microsoft Azure and Google Cloud" , "Customer and Partner Reaction to Nuance Deal"

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	CY20-CY22E Azure CAGR	CY20-CY22E Rev CAGR	FY22 GM	CY20-CY22E FCF CAGR
$335 upside	45%	17%	69.4%	20%
$300 base	39%	15%	68.8%	18%
$200 downside	35%	13%	68.2%	16%

Source : UBS

UPCOMING CATALYSTS

June 2021 quarter earnings in late-July, at which point MSFT will offer preliminary guidance into FY22. MSFT is hosting investor meetings as part of the E3 gaming event in mid-June.

SBA Communications (SBAC)

Buy ($350 Price Target)

Batya Levi, batya.levi@ubs.com, +1-212-713-8824

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Will carrier investment support accelerating tower revenue growth in the U.S.?
Yes. We expect growth to accelerate ~100-200 bps in the coming years due to a strong pipeline of catalysts (incl. continuation of T-Mobile's 2.5 GHz rollout, C-band deployments and DISH's network build commencing later this year, 5G densification efforts, etc.). We also believe SBAC is uniquely positioned to benefit from stronger C-band spend at AT&T given usage-based/pay-as-you-go pricing (vs. activity partly being captured by existing MLAs for CCI and AMT).

Q: How will international tower markets contribute to SBAC's growth trajectory?
International towers represent ~20% of SBAC's business (incl. Brazil at ~10%). We believe these markets stand to benefit from geographic diversification, with network deployments 5+ years behind the U.S. While COVID has weighed on activity and FX is a headwind, we believe core drivers remain intact and look for HSD organic growth over the LT.

UBS VIEW

Tower growth is strong & defensible and we believe SBAC is well positioned to capitalize on industry trends of rising data usage and increased carrier activity. With concrete catalysts for carrier spending in the next 12-24 months, we expect accelerating U.S. organic tower revenue growth into 2022 and 2023, supporting high-single-digit AFFO/sh and 20%+ dividend growth. We believe this growth trajectory, combined with a stabilization in rates and valuation 5+ turns from the recent highs creates an attractive opportunity.

EVIDENCE

U.S. wireless capex reached $31B last year, up low-single-digits for the fourth consecutive year and near all-time highs. Carriers continue to invest to keep up with growing data demands and upgrade networks amid the 5G transition. All carriers have announced plans for new spectrum deployments in the next few years while DISH has committed to building a greenfield 5G wireless network starting later this year. In international markets, greater POPs per cell site, lower 3G/4G penetration, availability of cheaper smartphones and exponential data traffic growth should drive continued investment.

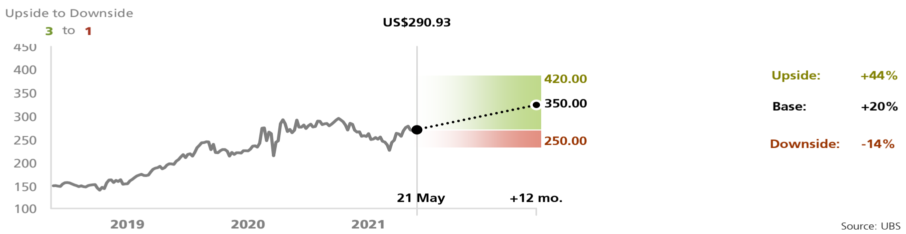
WHAT'S PRICED IN?

Shares have underperformed peers YTD due to higher leverage amid rising rates. SBAC now trades at 25.9x 2022E AFFO and 23.5x 2023E AFFO, vs. AMT at 25.2x and CCI-macro at 29.4x despite its historical premium in periods of faster growth. This compares to the 28x 1-year and 25x 3-year averages.

RELATED RESEARCH

SBAC: Growth inflecting with catalysts ahead
Communications Infrastructure "Towers: Strong visibility & defensive growth in the 5G cycle"

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	U.S. Organic Growth	Int'l Organic Growth	AFFO/sh growth
$420 upside	5%+	10%+	12%
$350 target	4-5%	8%	9%
$250 downside	3%	6%	7%

Source: UBS

UPCOMING CATALYSTS

C-band deployments and DISH network build commencing in late 2021; COVID impact improving internationally

T-Mobile US (TMUS)

Buy ($170 Price Target)

John Hodulik, john.hodulik@ubs.com, +1-212-713-4226

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can T-Mobile outperform long-term guidance and narrow the margin gap vs. peers?
We believe so. Management's LT guide suggests service margins of 46% in 2023 and 50%+ by 2026 vs. 55%+ for AT&T and 65%+ for Verizon today. Given its 31% service revenue share (vs. 37% at VZ and 32% at AT&T) and 29% postpaid phone share (40% VZ, 28% AT&T), we believe this gap is too wide. While lower ARPU, faster growth and limited backhaul assets explain part of the difference, we believe newfound scale, lower churn and higher synergies from Sprint will drive a stronger margin trajectory than street expectations.

Q: How will ramping FCF generation be used in the coming years?
We look for a ~3% service revenue and ~9% EBITDA CAGRs while capex begins to fall in '23 and beyond as the integration winds down. We estimate this will drive $65B+ in cumulative FCF thru '25. Holding leverage at ~2.5x, this would provide capacity for ~$60B of buybacks from 2023-25 or ~35% of market cap.

UBS VIEW

We believe T-Mobile is well positioned to take share given growth in underpenetrated segments & strong 5G spectrum position while the street's LT margin assumptions (in-line with mgmt guidance) appears conservative. We believe an industry leading service revenue and EBITDA growth trajectory will support ramping FCF and buybacks starting in 2023 (with the capacity to buyback 35% of the market cap by 2025).

EVIDENCE

The company reported LSD service revenue growth and double-digit EBITDA growth in recent qtrs, helped by initial synergy realization. Legacy Sprint subscriber churn remains elevated but has improved with better network quality. ~20% of Sprint subs are on T-Mo's network (17% in 4Q; target 60% by YE & 100% by mid-22). With C-band gradually being freed starting later this year (primary 5G spectrum for peers), TMUS has a time to market advantage with its 2.5 GHz network at 140M POPs, going to 200M+ by YE.

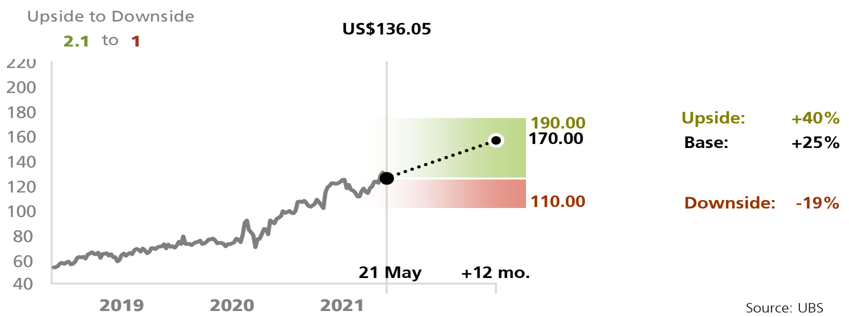
WHAT'S PRICED IN?

The stock trades at 7.7x 2023E EBITDA, only a slight premium to Verizon at 7.4x despite a faster growth trajectory. On a FCF basis, the stock trades at just 9.4x 2023E FCF, again a discount to Verizon at 11.4x and ~15x for other cable and telecom services peers with buyback programs and accelerating FCF/sh growth.

RELATED RESEARCH

T-Mobile US "Executing against playbook with beat and raise" (Buy) Hodulik
T-Mobile US "Growth trajectory drives significant buyback potential" (Buy)
U.S. Wireless "A better way to look at T-Mobile - Sprint synergies" Hodulik

UPSIDE / DOWNSIDE SPECTRUM



Source: UBS

Value drivers	Service Revenue Growth	EBITDA Growth	2023E FCF/sh (ex integ.)
$190 upside	5%+	10%+	$17
$170 target	3%	8-9%	$14-15
$110 downside	1%	5%	$11

Source: UBS

UPCOMING CATALYSTS

5G Network rollout ahead of peers; Earnings

Uber Technologies Inc (UBER)

Buy ($75 Price Target)

Ben Miller, benjamin-h.miller@ubs.com, +1-212-713-3629

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Uber grow Ridesharing gross bookings & revenue at a 25%+ '20-'25E CAGR?
Yes. We expect Ridesharing bookings to grow at a 27% '20-'25E CAGR and Revenues at a 29% CAGR. Despite still recovering from significant industry-wide demand headwinds as a result of the COVID-19 pandemic in 2020, we still see several long-term secular tailwinds that Uber should benefit from, including a) market leadership in No. America with stable share in a duopolistic market with rationalizing industry dynamics; and b) the #1/#2 player in markets outside of NA.

Q: Can Uber Eats grow gross bookings & revenue at a 30%+ '20-'25E CAGR?
Yes. We believe Eats gross bookings can grow at a 36% '20-'25E CAGR. While demand in the coming quarters is expected to decelerate from significant 2020 tailwinds due to the COVID pandemic (reopening + tough YoY comps), we still see: 1) a large scaled opportunity to capitalize on shifting consumer trends toward food delivery (accelerated by COVID-19); 2) fragmented supply; & 3) platform strength (driver scale w/ capacity in search of optimized yield & economics against consumer base looking for a frictionless experience within a broad offering of convenient solutions).

UBS VIEW

Looking beyond short-term debates (Ridesharing recovery vs. Delivery demand trends amidst re-opening), we continue to see Uber as well-positioned to capitalize on global growth opportunities (Ridesharing, food delivery/local commerce) while balancing investments and continuing to align its asset portfolio to maximize returns.

EVIDENCE

UBS Evidence Lab survey data shows secular growth in ridesharing and food delivery remains intact while data on app downloads demonstrate Uber has stable to rising share in most markets in which it operates.

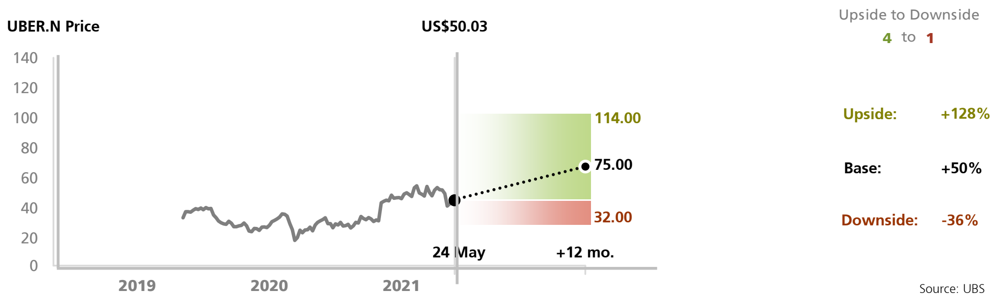
WHAT'S PRICED IN?

We believe the market is still undervaluing Uber's sum-of-the-parts portfolio asset value, particularly its international businesses, amidst a continued volatile short-term recovery.

RELATED RESEARCH

Q1'21 EPS Review; Multiple Roads to Unlock Uber Value (Initiate at Buy)

UPSIDE / DOWNSIDE SPECTRUM



Value drivers (2021E)	Gross Bookings Growth	Take Rate	Total MAPCs (m)	Total Rev Growth	Adj. EBITDA Margin
$114 upside	73%	19%	123.6	70%	2.6%
$75 base	64%	18%	115.4	53%	-1.4%
$32 downside	56%	17%	107.1	37%	-5.4%

Source: UBS

UPCOMING CATALYSTS

Quarterly earnings reports; Interim data points on ridesharing/food delivery demand (incl. UBS Evidence Lab data)

Walt Disney Co (DIS)

Buy ($215 Price Target)

John Hodulik, john.hodulik@ubs.com, +1-212-713-4226

UBS Research THESIS MAP a guide to our thinking

PIVOTAL QUESTIONS

Q: Can Disney's DTC sub growth re-accelerate and does its content strategy drive pricing power?
Yes. We believe Disney is uniquely positioned with a collection of the strongest content/brands and a track record for maximizing the value of its IP. Given the strength and global recognition of its content, we believe Disney will achieve similar scale to industry leader Netflix with 350M+ global subs by '24 (vs. ~300M at Netflix) and similar (if not better) economics over time given Disney's ability to spend less per sub on content while narrowing the pricing gap as programming scales. While DTC growth will moderate NT, we believe this is more reflective of COVID-related factors (delayed content production, later market launches & cancellation of Cricket in India), than a reflection of the LT growth oppty & power of Disney's content.

Q: What is the path to Parks recovery in a post-COVID world?
We believe Parks have bottomed and will see improvement in attendance/ profitability as the vaccine becomes more widespread. We believe the leisure travel market will benefit from pent-up demand while pandemic cost-saving initiatives enable margins to reach new highs. The street is showing full recovery in attendance by '23 and margins in-line with pre-COVID, both of which could see upside in our view.

UBS VIEW

We believe that the company's DTC efforts can outperform expectations, driven by strong subscriber growth and pricing power in the years ahead. We believe Disney's full blown pivot into a global DTC player will support a valuation similar to Netflix on this leg of the business while underlying drivers in the core business improve post COVID with better parks and film performance.

EVIDENCE

Disney+ has been the fastest growing DTC app since its launch in Nov. 2019, reaching 104M subs as of April 3, 2021. This has been achieved despite Disney spending ~$3 per sub on content vs. $7+ at Netflix. Including Hulu and ESPN+, Disney now has nearly 160M global subs vs. 200M+ at Netflix. We leverage UBS Evidence Lab app downloads data to monitor performance. We also leverage foot traffic data and park wait times to assess the recovery in the parks division, which has started to see more promising trends.

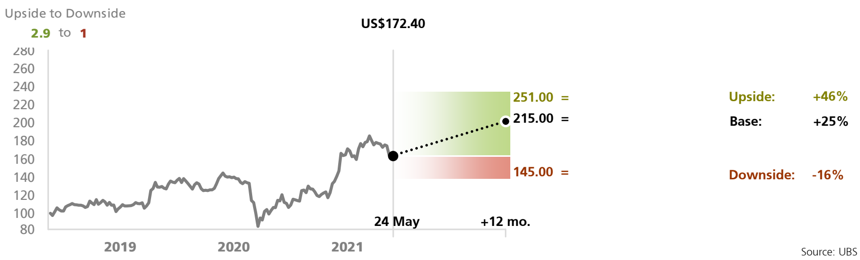
WHAT'S PRICED IN?

We value the DTC segment at ~$195B, based on ~8x 2024E revenues discounted back, in line with Netflix's average sales multiple and versus its $230B+ enterprise value. This implies Disney's legacy business (MediaNets/ Studio/Parks) is trading at just 11x 2022-23 EPS/7x EBITDA vs. its 15x+/10x LT average.

RELATED RESEARCH

The Parks Awaken; Walt Disney Co "UBS Evidence Lab inside: Disney Data Checks point to..."; Disney: DTC Leader + Reopening beneficiary; Upgrade to Buy

UPSIDE / DOWNSIDE SPECTRUM



Value drivers	Avg. F22-23E EPS (ex DTC)	Relative multiple to S&P500	2024 DTC revenues	Sales Multiple
$251 upside	$7.40	0%	$33B+	8x
$215 target	$6.70	-10%	$30B	8x
$145 downside	$6.00	-20%	$25B	5.5x

Source: UBS

UPCOMING CATALYSTS

New DTC market launches (Star in LatAm, Easter Europe, Thailand, S. Korea, Hong Kong); Content releases from Star Wars and Marvel later this year; Easing restrictions on public gatherings and travel

Valuation Method and Risk Statement

Forecasting earnings and corporate financial behavior is difficult because it is affected by a wide variety of economic, financial, accounting, and regulatory trends, as well as changes in tax policy.

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12-Month Rating	**Definition**	**Coverage**[1]	**IB Services**[2]
Buy	FSR is > 6% above the MRA.	52%	31%
Neutral	FSR is between -6% and 6% of the MRA.	36%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	**Definition**	**Coverage**[3]	**IB Services**[4]
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2021.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Apple Inc.[6b, 7, 16]	AAPL.O	Buy	N/A	US$126.90	25 May 2021
Arista Networks Inc[16]	ANET.N	Buy	N/A	US$338.30	25 May 2021
Arvinas Inc[16, 20b]	ARVN.O	Buy (CBE)	N/A	US$65.21	25 May 2021
Berry Global Group[13, 16]	BERY.N	Buy	N/A	US$68.37	25 May 2021
C4 Therapeutics Inc[2, 4, 6a, 13, 16, 20a]	CCCC.O	Buy (CBE)	N/A	US$34.70	25 May 2021
Catalent Inc[4, 6a, 16]	CTLT.N	Buy	N/A	US$103.45	25 May 2021
Citigroup Inc[2, 4, 5, 6a, 6b, 6c, 7, 16, 20a]	C.N	Buy (CBE)	N/A	US$77.28	25 May 2021
Constellation Brands Inc[16]	STZ.N	Buy	N/A	US$237.94	25 May 2021
Denali Therapeutics Inc[16]	DNLI.O	Buy	N/A	US$64.64	25 May 2021
Devon Energy Corporation[6b, 6c, 7, 16, 20b]	DVN.N	Buy (CBE)	N/A	US$25.80	25 May 2021
DexCom Inc[16]	DXCM.O	Buy	N/A	US$353.25	25 May 2021
Dollar Tree[16]	DLTR.O	Buy	N/A	US$106.98	25 May 2021
FedEx Corporation[6b, 7, 16]	FDX.N	Buy	N/A	US$308.59	25 May 2021
Generac Holdings Inc[13, 16]	GNRC.N	Buy	N/A	US$312.90	25 May 2021
General Electric Co[4, 5, 6a, 6b, 6c, 7, 16]	GE.N	Buy	N/A	US$13.12	25 May 2021
IHS Markit Ltd[16]	INFO.N	Buy	N/A	US$104.99	25 May 2021
International Flavors & Fragrances Inc[16]	IFF.N	Buy	N/A	US$141.62	25 May 2021
International Paper Company[16]	IP.N	Sell	N/A	US$63.58	25 May 2021
L Brands Inc[16, 20a]	LB.N	Buy (CBE)	N/A	US$66.57	25 May 2021
McDonald's[5, 16]	MCD.N	Buy	N/A	US$232.14	25 May 2021
Micron Technology Inc[16]	MU.O	Buy	N/A	US$81.23	25 May 2021
Microsoft Corp.[4, 6a, 6b, 6c, 7, 16]	MSFT.O	Buy	N/A	US$251.72	25 May 2021
Mondelez International Inc[16]	MDLZ.O	Buy	N/A	US$63.71	25 May 2021
Morgan Stanley[4, 6a, 6b, 6c, 7, 16]	MS.N	Buy	N/A	US$88.86	25 May 2021
Nasdaq, Inc.[6b, 7, 12, 16]	NDAQ.O	Buy	N/A	US$164.31	25 May 2021
Plains All American Pipeline[13, 16, 20a]	PAA.O	Buy (CBE)	N/A	US$10.44	25 May 2021
Popular Inc[16, 20a]	BPOP.O	Buy (CBE)	N/A	US$79.09	25 May 2021
Prologis Inc[16]	PLD.N	Buy	N/A	US$118.18	25 May 2021
Quanta Services[16]	PWR.N	Buy	N/A	US$93.82	25 May 2021
Quest Diagnostics Inc[16]	DGX.N	Buy	N/A	US$130.85	25 May 2021
Raytheon Technologies Corp[7, 16]	RTX.N	Buy	N/A	US$86.26	25 May 2021
Reinsurance Group of America Inc.[6b, 6c, 7, 16]	RGA.N	Buy	N/A	US$122.46	25 May 2021
S&P Global[16]	SPGI.N	Buy	N/A	US$378.59	25 May 2021
SBA Communications Corp[16]	SBAC.O	Buy	N/A	US$298.74	25 May 2021
Sempra Energy[16]	SRE.N	Buy	N/A	US$135.45	25 May 2021
Southern Copper[16]	SCCO.N	Sell	N/A	US$66.99	25 May 2021
Suncor Energy Inc[16, 20b]	SU.TO	Buy (CBE)	N/A	C$27.89	25 May 2021
TE Connectivity Ltd[5, 16]	TEL.N	Buy	N/A	US$133.94	25 May 2021
T-Mobile US[16]	TMUS.O	Buy	N/A	US$136.76	25 May 2021
Uber Technologies Inc[8, 16, 20a]	UBER.N	Buy (CBE)	N/A	US$50.46	25 May 2021
Ulta Beauty, Inc.[16]	ULTA.O	Buy	N/A	US$320.99	25 May 2021

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
United Airlines Holdings Inc[16, 20a]	UAL.O	Buy (CBE)	N/A	US$56.98	25 May 2021
W. R. Berkley Corporation[2, 4, 6a, 6b, 7, 16]	WRB.N	Buy	N/A	US$76.81	25 May 2021
Walt Disney Co[6b, 6c, 7, 16]	DIS.N	Buy	N/A	US$176.17	25 May 2021

Source: UBS. All prices as of local market close.
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