Equities Research

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Life & Health Insurance | Downgrade Rating

21 July 2022

American Equity Life [AEL.N]
Downgrading to Neutral on Credit Concerns and Near-term EPS Headwinds; Updating EPS Estimates

- **We are downgrading AEL to Neutral from Outperform on credit concerns and near-term EPS headwinds**. We are also lowering our price target to $38 (from $43 previously), representing 6% upside potential. Our valuation approach utilizes an asset-manager like P/E of 10x for AEL's fee-based earnings (~10% of CS 2023 EPS) and 6.5x multiple on spread earnings, which is lower than our previously ascribed multiple of 7.5x due to heightened credit risk concerns.
- **We are also revising our 2022/2023 EPS estimates to $3.14/$4.92, from the previous $4.05/$5.10 and we introduce our 2024 EPS of $5.90**. Consensus 2022/2023/2024 EPS is $3.51/$5.01/$5.80. The reduction to our estimates reflects higher rider reserves over the next year due to the unfavorable equity markets and higher near-term benefit utilization trends in 2Q22, as well as lower variable alternative income results in 2Q22 and 3Q22. These headwinds more than offset tailwinds from the rising rate environment, particularly on AEL's floating rate portfolio (~10% of invested assets).
- **Deteriorating macro environment driving credit concerns, with AEL amongst the most exposed in our coverage universe**. AEL's 1Q22 invested asset leverage of ~16x is the highest in our U.S. Life Insurance coverage universe, and well above the peer median of 8.4x, with the next highest company at 12.2x. If we were to see a material decline in credit, AEL's stock could come under pressure due to its elevated asset leverage.
- **Rising rates to significantly benefit net investment yield as ~10% of invested assets have a floating rate, but majority are CLO's which are drawing increased scrutiny**. CLO's have drawn investor scrutiny during potential credit downturns given the underlying collateral is below investment grade. Further the NAIC is now reviewing capital charges on CLO's with initial recommendations calling for increases to capital charges.
- **Potential to the upside includes improving macro conditions and/or acceleration of AEL's capital light strategy to free up additional capital**. Risks to the downside include continued challenged macro conditions which leads to increased credit losses.

Downgrade to NEUTRAL

Rating (from OUTPERFORM)	NEUTRAL
Price (21-Jul-22, US$)	36.11
Target price (US$) (from 43.00)	38.00
52-week price range (US$)	43.72 - 27.36
Market cap(US$ m)	3,361
Enterprise value (US$ m)	3,361

Target price is for 12 months.

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Full Report

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CREDIT SUISSE

ESTIMATE / TARGET PRICE CHANGES:

Electric Utilities | Pre Results Comment

22 July 2022

Canadian Infrastructure

Readying for Results with Multiple Moderation Ahead of the Energy Infrastructure Season

Credit Suisse's Calgary Energy Tour is back with days of meetings across the Canadian Energy and Energy Infrastructure ecosystem in October. Please contact us for details.

At the Edison Electric Institute Conference in Florida in November, we will host a full slate of meetings with various participating companies. Please contact us for details.

- **Plenty of Previews**: In this report, we moderated valuation multiples used in target prices in the Canadian Energy Infrastructure sub-sector based on several factors, including: **(a)** an overall market multiple moderation as was outlined recently in work by our Global Equity Strategy Team (*Earnings: How bad could it get?*); and, **(b)** the impact of changing interest rate expectations (*Dissecting the Dividend and Distribution Divide with Increasing Interest Rates*). From our perspective, there is a continued bifurcation in the energy infrastructure group between the large cap cross-continental franchises (namely **Enbridge Inc. (ENB)** and **TC Energy Corporation (TRP)**) and those with more regional exposure that tend to benefit from commodity driven margin expansion (*Volume Views Amidst the Volatility*). Our existing ratings and target price revisions are summarized below.

- **Selected Stocks**: In essence, the Canadian Infrastructure universe is largely divided into three sub-sectors and we continue to view the Power/Renewable Power group as being the most interesting, in part, given growth dynamics, valuation and thematic appeal. The Energy Infrastructure sub-sector, in our view, requires more tactical positioning partly the result of the large cap and regional divide. Commodity price movements combined with a degree of volume changes provide opportunities for significant margin expansion that, in a few cases, do not look to be priced fully into the stocks. In this context, our most direct focus is on **Keyera Corp (KEY)** and **Pembina Pipelines Corporation (PPL)**, but also highlight the hybrid **AltaGas Ltd. (ALA)** and **Brookfield Infrastructure Partners LP (BIP)** – albeit both of these names are Utility GICS and with very different exposures than the core Energy Infrastructure sub-sector. For those with a smaller cap focus and hybrid exposure, we like the business dynamics associated with **Tidewater Midstream and Infrastructure Ltd. (TWM).**

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Quest Diagnostics [DGX.N]

Q&A Our Way: Covid Changes; How Base Business Performs in a Recession Detailed

NEUTRAL

Rating	NEUTRAL
Price (21-Jul-22, US$)	134.63
Target price (US$) (from 158.00)	143.00
52-week price range (US$)	173.01 - 127.07
Market cap(US$ m)	15,801
Enterprise value (US$ m)	18,827

Target price is for 12 months.

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- **Covid Commentary**: With the revenue mix shift towards retail in 2Q22 (50% from ~33% prior), Covid margins were the lowest seen since the beginning of the pandemic. Looking towards the PHE ending, DGX believes that once Covid test reimbursement comes down to the $51 level, some clinical labs will exit the market, allowing Quest to pick up market share. Thinking about a run-rate environment for Covid, management commented that with a $51 price/test, and 10-20K tests/day, COVID would represent a $300-400 mln per year molecular testing business. On the increase in Covid related 2022 revenue guidance, DGX noted that the 5K incremental tests/day it is seeing, and the extra quarter of the PHE represent about half of the $300 mln raise and were related to 2Q outperformance.

- **Base Business Volumes Likely to be Resilient in a Recession**: Regarding the impact of a potential recession, Quest believes it is helpful to consider the most recent recession. Management notes that 2009 volumes were down 70 bps Y/Y, 2010 volumes were down 100 bps, and started to grow again in 2011. DGX added that the biggest difference now is the presence of the ACA, providing more of a safety net for people who may lose employer sponsored coverage to obtain coverage through Medicaid and the exchanges, which could allow for more to maintain coverage and potentially utilization in the next downturn.

- **Margins and Investments**: The Invigorate program continues to drive 3% annual productivity gains and is helping offset inflationary pressures. Management is still targeting $160 mln in investment spend for all of 2022 to help achieve goals in growing DTC and advanced diagnostics.

- **Updating Estimates, PT & Valuation**: We adjust our 2022 est. revs to $9.6 bln from $9.3 bln and est. EBITDA to $2.1 bln from $2.0 bln, and our ’23 est. revs to $8.98 bln from $8.93 mln, and ’23 EBITDA est. to 1.90 bln from $1.88 bln to account for adj. Covid testing expectations. Our TP of $143 ($158 prior) is based on our 2023 EV/EBITDA multiple of 11.0x (~12.5), which was adjusted to reflect historic valuation averages and the uncertain economic backdrop. Risks include Covid and reimbursement pressures.

Full Report

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Software | Decrease Target Price

22 July 2022

Snap Inc. [SNAP.N]
Ceding Share as Advertiser Demand Flattens YOY

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Jul-22, US$)	16.35
Target price (US$)	(from 45.00) 35.00
52-week price range (US$)	83.11 - 11.91
Market cap(US$ m)	26,828
Enterprise value (US$ m)	28,978

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- **Event**: Snap reported 2Q22 results with revenue of $1110.9mm vs. CS/cons of $1053mm and $1153mm. Adj. EBITDA was $7.2mm vs. CS/cons ($97)mm/$5mm. Daily Active Users (DAUs) in North America were 99mm vs our 99mm. EU DAUs were 86mm vs our 85mm, and ROW DAUs were 162mm vs our 161mm. Our 2022/2023 Adj. EPS are now ($0.21)/($0.25) vs prior ($0.14)/$0.15.

- **Investment Case**: 2Q22 revenue fell short of consensus due to macro headwinds while Adj. EBITDA came in slightly above. Advertisers across most verticals have lowered spend given the current backdrop and visibility remains limited. While Snap did not provide 3Q22 guidance, it did mention that YOY revenue growth is flat thus far, softer than both CS/Street est. of $1.1b /$1.3b. As we have noted, advertisers are starting to retrench budgets into the highest ROI destinations and amidst flattening budget growth for 2H22, it's progressively more difficult for Snap to claim share. DAUs remain healthy at 347mm and 3Q22 expectations for ~18% growth YOY (~360mm) indicate product releases continue to resonate with consumers. Maps MAUs have reached 300mm vs 250mm prior, pointing the way toward longer-term monetization potential. Mgm't intends to meaningfully decelerate hiring given the slower revenue growth, but we forecast Snap to swing to an Adj. EBITDA loss for 3Q22/2022/2023. Our 2022 and 2023 revenue estimates are now lower by ~2% and ~11% respectively and our Adj. EBITDA estimates for 2022 and 2023 also decline to ($40)mm and ($131)mm vs prior ($5)mm and $426mm respectively. Our price target decreases to $35 vs prior $45 on the decreased estimates, and we maintain our Outperform rating on the following: 1) potential for better-than-expected DAU growth with a revamped Android app released in more geographies, 2) potential for better-than-expected ad revenue on ramping product rollouts and marketer adoption, 3) monetization optionality from increased engagement from Games, Maps, and longer term Spotlight.

- **Valuation**: In-line with the valuation methodology we have used with the rest of our coverage universe, we have based our target price on DCF which suggests $35 (vs prior $45). We have used a WACC of 11% and a terminal growth rate of 3%. Competition for engagement and budget share remain risks to our estimates.

Full Report

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CREDIT SUISSE

Brewers | Decrease Target Price

22 July 2022

The Boston Beer Company [SAM.N]
Beginning to Turn the Corner

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Jul-22, US$)	336.18
Target price (US$) (from 400.00)	385.00
52-week price range (US$)	726.62 - 289.94
Market cap(US$ m)	4,130
Enterprise value (US$ m)	3,888

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Boston results highlight a business still reeling from last year's hard seltzer fallout. Despite rebased expectations, a margin miss was a surprise. But, we think the new guidance will be the end of a series of cuts. New growth drivers are in play but in a myopic environment where macro concerns dominate, holding the portfolio together will be viewed as a win.

2Q Results: Sales +2% with price +3% and shipments -1% (depletions -7%). 43% GM (-261bp), -170bp operating deleverage (11.6% margin) put EPS at $4.31 (-9%). New '22 guidance calls for -2 to 8% shipment/depletions, +3-5% price, 43-45% GM, and $6.00-11.00 EPS. We are at $8.70.

Truly headwinds persisted in 2Q (sales -17%) and management now expects the category to contract 15-20% this year. This may be conservative given comps easing after July. SKU optimization and new flavors are tactics to improve performance but consumers appear to be focused on RTD cocktails now and shifting back to premium light beer.

Margins disappointed as lower Truly volumes were expected to act as an offset to higher input costs. Instead, product returns and delays in ramping internal capacity contributed to a -260bp gross margin hit. The revised GM outlook implies a return to ~45% in 2H though this timing shift despite less A&P spend lowers our '22 EPS estimates by ~$1.00 to $8.70.

Positives are Twisted Tea's performance and early results from new innovations such as Hard MTN Dew and Dogfish RTD cocktails. As management tries to identify and invest behind the next growth driver, we think A&P spending cuts will be on the lower end ($30m).

Estimates: 3Q sales +4.5% with price +4% and shipments +0.5%. 45% GM (+1,465bp) as Boston laps write-down costs leads to $4.58 EPS. For 2022, we estimate sales -2%, shipments/depletions -6%, and +4% pricing. 43.5% GM (unchanged) and higher G&A expenses lower EBIT margin to 7.2% from 8% putting '22 EPS at $8.70 from $9.60.

Valuation & Risks: $385 (prior $400) TP based on 15x our 2025 EBITA of $397m (prior $412m) discounted at 8%. Risks include consumer trade down, margin recovery, and shelf space.

Full Report

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Diversified Metals & Mining | Decrease Target Price

22 July 2022

Freeport-McMoRan [FCX.N]

More Pain Before Some Gain; Remain Neutral on Fair Risk-Reward Profile; TP Now $34

NEUTRAL

Rating	NEUTRAL [V]
Price (21-Jul-22, US$)	28.91
Target price (US$)	(from 38.00) 34.00
52-week price range (US$)	51.93 - 25.09
Market cap(US$ m)	41,898
Enterprise value (US$ m)	44,919

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While FCX reported a broadly inline quarter, the near-term earnings outlook looks bleak with cost inflationary headwinds (FY22 cost guide raised by ~11% since Q1) and recent price decline is expected to meaningfully impact company's profitability over the next few quarters. We expect earnings to trough in Q3 and forecast gradual improvement from Q4 onwards. FCX shares are highly correlated to the LME copper price and we believe risk / reward is now fairly balanced for the stock. A key question for FCX investors is how the company can generate substantial economic value add above the copper price leverage and ultimately sizeable and well executed organic growth has been a material driver for companies in the past versus large scale M&A. While we believe FCX is well positioned to harvest its capital investments and generate strong FCF going forward, we rate it Neutral (recent upgrade) on near-term headwinds and balanced risk-reward on our copper deck. TP now $34 ($38 prior).

The risk off sentiment in the copper market has been fast and furious and directionally copper prices continue to move in fashion with inflation breakevens. Based on our models we believe copper should be trading closer to $3.80/lb based on current US 10 year breakevens near 2.3%, which have fallen 24% from the high in April. Copper prices on the other hand are down 32% from April highs and thus we believe have decoupled owing to liquidation and shift in LME positioning. For all the concerns on recession we note that China arguably has been in recession or at least low growth since 3Q of last year given property weakness and energy shortages with Covid lockdowns starting late March of 2022. Brazil was in recession in 2H of 2021 and Europe has been facing weaker growth during 2022. Yet copper prices hit all-time highs near $5.00/lb in March as US 10-Year breakevens also hit 20-year highs. We find this ironic was we believe the global copper market has been teetering on recession really since end of 2021. Also, US demand remains generally healthy and copper inventories globally are low.

Neutral Rating Reflects Balanced Risk-Reward on Our Copper View. On our estimates, FCX trades at 10.6% 2024 "owned" FCF yield assuming $4/lb copper, which declines to 8.1% at $3.50/lb copper and 5.6% at $3/lb copper. Our $34 (prior $38) target price assumes FM trades at an average owned FCF yield of ~9% on 2024 or 6.9x owned EV/EBITDA. We lower our 2022 EBITDA view by ~18% to $9.8bn (vs. consensus at $10.8bn) owing to higher cost assumptions and lower copper deck. Key risks include variances to our forecast copper prices, execution at Grasberg, & shifts in long term inflation expectations.

Full Report

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Domino's Pizza Inc. [DPZ.N]
Carryout Overdelivers

NEUTRAL

Rating	NEUTRAL
Price (21-Jul-22, US$)	405.64
Target price (US$) (from 400.00)	425.00
52-week price range (US$)	564.33 - 325.13
Market cap(US$ m)	14,621
Enterprise value (US$ m)	19,710

Target price is for 12 months.

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- **DPZ 2Q22 Earnings:** DPZ's 2Q print was "more of the same" & unlikely to change long-term theses. EPS of $2.82 slightly missed consensus' $2.90 largely due to tax. US SSS of -2.9% beat sell-side's -4.9% (and higher buy-side expectations), with 3-yr SSS accelerating 500bps+ from 1Q. International SSS of -2.2% were soft, in part reflecting the lapping of a VAT holiday in the UK (headwind through 1Q23), noting SSS would have otherwise been slightly positive. DPZ opened 233 net units reflecting stronger international growth partially offset by softer US opens, with US unit growth to remain lower near-term. DPZ is continuing to look at ways to address delivery driver shortages, and while likely evaluating the potential use of 3P to supplement its own driver network, commentary suggests 3P partnerships are not a "foregone conclusion," and we believe any partnership would be limited to white label fulfilment (not marketplace presence). Margins are expected to remain pressured through 2022 given soft sales & elevated costs (commodity inflation 13-15% from 10-12% prior), though pricing, a reacceleration in SSS & effective cost management should help DPZ fully recapture margins over time. We have conviction in DPZ's high quality, digital-forward growth story long-term though given incremental risk to numbers in 2022, at current valuation; we believe shares offer a balanced risk/reward.
- **US Dynamics:** DPZ delivered 2Q US SSS of -2.9%, implying 3-yr SSS accelerated to 16.7% from 11.1% in 1Q, reflecting benefits from the boost week promotion, pricing & improved service levels, though labor & tough compares remain headwinds. Carryout performance was a bright spot, with SSS of 14.6%, or 3-yr SSS of 33%, accelerating from 1Q 3-yr SSS of 24%. Delivery remains challenged, with SSS of -11.7%, though 3-yr SSS of 8% improved from 1Q 3-yr SSS of ~6%. Staffing challenges continue to materially weigh on top-line, noting SSS for the top 20% of stores (fully staffed) are outperforming the bottom 20% by ~7%, though the gap narrowed from ~12% in 1Q. We look for greater visibility into a sustainable improvement in staffing and underlying demand (noting DPZ is running another boost week by the end of summer) to get more constructive, though we believe DPZ's attractive value proposition should support relative outperformance in a challenging consumer environment (see Price Check: Feeding a Family of 4).
- **Estimate Changes:** We are slightly raising our 2022 EPS to $12.57 (from $12.50) and maintaining our 2023 EPS of $15.23.
- **Valuation:** We are increasing our TP to $425 (from $400) based on ~20x/26x our NTM EBITDA/ EPS in 12 months. Risks: COVID-19, competition, consumer spending, FX.

Full Report

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Canadian Infrastructure
Utilities Earnings Ahead – Multiple Moderation, the Rate Reality and Views on Value

Credit Suisse's Calgary Energy Tour is back with days of meetings across the Canadian Energy and Energy Infrastructure ecosystem in October. Please contact us for details.

At the Edison Electric Institute Conference in Florida in November, we will host a full slate of meetings with various participating companies. Please contact us for details.

- **Plenty of Previews**: In this report, we moderated valuation multiples used in target prices in the core Canadian Regulated Utility sub-sector based on several factors, including: (a) an overall market multiple moderation as outlined recently in work by our Global Equity Strategy Team (*Earnings: How bad could it get?*); and, (b) the impact of changing interest rate expectations (*Dissecting the Dividend and Distribution Divide with Increasing Interest Rates*). Perhaps more specific to the regulated utilities sector is the noticeable persistent divergence in legacy interest rate movements and stock/sector performance. With that backdrop, we modestly downwardly revised multiples that translated into target price reductions.
- **Selected Stocks**: In the Canadian Infrastructure coverage universe, we continue to view the regulated Utility sub-sector as being less attractive versus the Energy Infrastructure and Power/ Renewable Power sub-sectors. We make that conclusion, in part, given volume and margin dynamics favouring Energy Infrastructure along with portions of the more market exposed power producers. Moreover, the overall growth prospects of the renewable power sub-sector tend to offer a very compelling risk-reward relationship, in our view. As outlined in our recent yield related report, we believe there are pockets of value amidst the shifting interest rate expectations environment. Yet, the growth rates, valuations and the selected regulatory features of specific company frameworks do not appear as attractive in the core regulated utility universe. There are no ratings changes in this report, but a series of earnings revisions and target price changes. We remain selective in this sub sector and favour **Brookfield Infrastructure Partners LP (BIP)** that is more diversified infrastructure exposure on a global basis.

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Full Report

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Crown Castle [CCI.N]
2Q22 Results – Solid 2Q, Although Investor Focus Heavily Shifting to 2023E

OUTPERFORM

Rating	OUTPERFORM
Price (21-Jul-22, US$)	173.01
Target price (US$)	(from 215.00) 213.00
52-week price range (US$)	208.74 - 154.99
Market cap(US$ m)	74,918
Enterprise value (US$ m)	96,632

Target price is for 12 months.

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- **2Q22 Results and Model Adjustments**: CCI reported rev./adj. EBITDA /AFFOS of $1.73B (+9.5% y/y)/$1.08B/ $1.80, ahead of estimates on rev/EBITDA but slightly behind on AFFOS. Following solid 2Q22 results and tweaks to 2022 guidance, we adjust our 2022 rev./AFFOS estimates to $6.92B/$7.36 from $6.91B/$7.39, respectively. Following model adjustments, we lower our TP to $213 (mainly due to DCF discount rate) from $215 and reiterate our Outperform rating.
- **Not Quite a Beat & Raise:** CCI raised its 2022 EBITDA guide by $20M on better services revenues, but AFFO was maintained due to adjustments to interest expense (+$45M), maintenance capex (-$15M), and cash taxes (-$10M). On services, mgmt noted that CCI is seeing a stronger capture rate and better economics than previously projected, while leasing is mostly in-line. The $45M headwind from higher interest expense is disappointing but CCI is relatively insulated given that only 15% of its total debt is linked to floating rates.
- **5G Cycle Still in Early Innings with Densification Ahead:** Despite AT&T’s comments about having pulled forward their 5G build, CCI mgmt was confident that we remain in the early days of the 5G cycle. We agree as wireless capex estimates remain robust for 2023 and invested capital projects to be flat for AT&T in 2023 in spite of their recent comments. We have yet to work past the early cycle period in which carriers deploy mainly on existing sites, meaning densification on new sites remains a tailwind.
- **Small Cell Acceleration Remains Likely:** Expanding on the future of the 5G cycle, CCI mgmt reiterated its belief that 5G densification is impossible without small cells en masse. While CCI may see up to $45M of small cell churn in 2023 due to Sprint overlap, it also sees growing commitments from TMUS & VZ. Further, we believe elevated inflation could be a positive for CCI, as it may push incremental small cell outsourcing from telcos to CCI.
- **Valuation – Outperform, Lowering Target Price to $213:** We value CCI based on the average of two methods: (1) P/AFFOS multiple of 27x our 2023E AFFOS of $7.84; and (2) DCF valuation assuming a WACC of 5.9% and terminal growth rate of 2.9%. Risks include higher interest rates, reduced telecom carrier spending, small cell/macro tower obsolescence, and customer concentration and equipment shortages.

Full Report

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PPG Industries [PPG.N]
Upside 2Q Results but Downside 3Q Guidance

UNDERPERFORM

- **Adj. EPS of $1.81 vs $1.68/$1.73 CSe/consensus & in-line with guide.** Call at 8AM ET (844-200-6205). Guided mid-pt. 3Q EPS of $1.88 vs consensus of $2.04, on volume down low-single % Y/Y. JunQ vol. was down low teen % in Asia/China, down ~10% in EMEA, offset by volume up low single % in the Americas. Asia/China is expected to improve in 3Q, but overall volume expected down low single % as EMEA remains weak. Price has largely caught up with raw mats - expected in SepQ up low single % Q/Q. Volume still below prepandemic levels in auto OEM, aerospace & auto refinish. Bolt-ons added 4% Y/Y to sales, & we believe higher % to earnings. We also recently reviewed PPG's core bolt-on deal strategy (link).
- **Performance Coatings EBIT of $446M v $430M CSe.** Segment volume declined 4% Y/Y. PPG saw similar weak EMEA architectural sales as earlier reporting Akzo (link). Americas & Asia Pacific architectural volume declined, in spite of "good progress in expanded U.S. arch. PRO initiative with Home Depot." PPG noted April & May sales saw continuing raws & transportation constraints. Volume still 20% below 2019 in aerospace, & 5% below in auto refinish, but both were up solidly Y/Y.
- **Industrial Coatings EBIT of $156M v $139M CSe.** Segment volume declined 3% Y/Y. Auto OEM volume, still ~5% below 2019, declined Y/Y in 2Q, but is expected to be up Y/Y in SepQ. Industrial & consumer durables coatings vol. down 3% Y/Y in JunQ; expected up low single % in SepQ. Consumer durables weaker than industrial durables. Packaging/can coatings vol. appeared up modestly Y/Y in JunQ and is expected down modestly Y/Y in SepQ.

Valuation & Risks: TP reduced to $110 from $115 and represents ~10.0x NTM (JunQ24E) EBITDA of $3.07B vs prior $3.28B (end MarQ24E). We reduced our 2022/2023 EPS estimates to $6.80/$8.25 from $6.85/$8.50 Upside risks to our Underperform rating include stronger-than-anticipated residential/commercial paint market despite a rising interest rate environment; strong rebound in auto production; and/or a sharp decline in oil price leading raw materials lower.

Rating	UNDERPERFORM
Price (21-Jul-22, US$)	122.95
Target price (US$) (from 115.00)	110.00
52-week price range (US$)	173.10 - 108.50
Market cap(US$ m)	29,034
Enterprise value (US$ m)	34,566

Target price is for 12 months.

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Full Report

Date of Production: 21-Jul-2022 22:46:44 UTC Date of Dissemination: 21-Jul-2022 22:47:58 UTC

a.k.a. Brands Holding Corp [AKA.N]
Broad-based Slowdown Across the AKA Portfolio; Lowering '22 Estimates Significantly

NEUTRAL

Rating	NEUTRAL [V]
Price (21-Jul-22, US$)	2.95
Target price (US$)	(from 6.00) 5.00
52-week price range (US$)	15.19 - 2.66
Market cap(US$ m)	380
Enterprise value (US$ m)	441

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- **AKA Revenues Decelerated Significantly Starting in June (After Relatively Stable Trends in Apr/May)** resulting in a big 2Q rev miss at $159m (+6% YOY; Street: $176m, CSe: $176m, Guide: $173-$177m). Organic revenues were ~flat (excluding an $8m FX drag and a lift from 2021 acquisitions). Promotions were well above plan and will likely continue to weigh on GMs until inventory can be right sized (potentially by mid-4Q).

- **AKA's EBITDA miss in 2Q was even more surprising** at $5.9m (Street: $16.5m, CSe: $17.3m, Guide: $16-17m). The miss was driven equally by 1) increased promotions and a higher rate of product returns impacting GM (below avg return rates have been a long-term concern for us); 2) operating deleverage and 3) deteriorating marketing efficiency through the quarter. June exit rates were much weaker than April/May and with elevated inventory levels, 3Q topline & GM growth will remain challenged. AKA plans to reduce and re-route marketing spend and will look for G&A control opportunities. That said, we're disappointed by the magnitude of deleverage in 2Q for a model that should have a much higher mix of variable costs (for reference, for GPS—a high-fixed cost traditional store retailer—we expect -1000bp of YOY EBITDA margin deleverage in 2Q on -9% revenue declines. We estimate ~1100bp of deleverage for AKA on flat organic revs).

- **Bottom Line**: While AKA's revenue miss was largely based on dynamics that the rest of the Softlines space is clearly seeing lately, we're disheartened that the business couldn't manage the cost structure or control inventory more rapidly to offset such a significant reduction to total profits in the year. We lower our '22E revs to $679m from $803m, and lower our EBITDA to $51m (7.5% margin) from $94m. We lower our '23E revs to $805m (+19% YOY) from $1.01B, and lower our EBITDA to $70m (8.7% margin) from $122m.

- **Valuation:** We lower our Target Price to $5 from $6 based on EV/Sales multiple of ~0.8x (no change). Risks: Macro, FX, COVID.

Full Report

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Robert Half International [RHI.N]
Too much uncertainty for RHI stock

UNDERPERFORM

Rating	UNDERPERFORM
Price (21-Jul-22, US$)	82.70
Target price (US$)	(from 70.00) 68.00
52-week price range (US$)	124.53 - 74.89
Market cap(US$ m)	9,139
Enterprise value (US$ m)	8,353

Target price is for 12 months.

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BOTTOM LINE—we expect the RHI stock to close below where it opens tomorrow as the market discounts essentially in-line Q2A + Q3E guide—versus beats and upside—which also represents slowing growth. Importantly, contract talent solutions revenue [~65% revenue] decelerated to [+21% YoY] vs Q1 [+31%] coupled with negative ~2.3% impact to revenue from FX [5c negative impact to Q3 EPS guide]. While RHI executed in Q2, we remain hesitant on the stock given macro uncertainty. We remain selective as payroll remains better positioned at this point in the cycle [PAYX + CDAY + PYCR]. To the extent Robert Half continues hiring internally as it becomes difficult to source candidates externally and Protiviti-related projects runoff this could press margins. We continue to believe the RHI stock is discounting cycle optimism that is too high especially given the shorter 4-6 week duration assignments. We remain Underperform as initial claims continue creeping upwards from multi-decade lows. Historically, as initial jobless claims bottom, staffers tend to peak.

■ **Results [Q2]: MIXED.**

o Revenue: $1.863b [prior guide $1.855-$1.935b + CSe/St.: $1.899b/$1.894b].

o EPS: $1.60 [prior guide $1.53 to $1.63 + CSe/St.: $1.58/$1.59].

■ **Guidance [Q3]: MIXED**

o Revenue: $1.87b to $1.95b [vs. CSe/St.: $1.81b/$1.90b].

o EPS: $1.60 to $1.70, midpoint $1.65 [vs. CSe/St.: $1.55/$1.63].

■ **CS EPS:** 2022E/2023E we take to $6.30/$5.85 [$6.00/$5.85 prior].

■ **Positives**—Permanent placement significantly beat for the 2nd consecutive quarter with 39.3% YoY growth vs CSe +8.9%.

■ **Negatives**—Contract Talent was light of expectations at $1.17bn vs CSe $1.24bn

■ **$68 [from $70] TP is ~11.5x 2023E EPS**—ex-cash—vs. 3yr range + avg. 8.1x-22.7x + 17.0x & recessionary/early/mid-cycle average of ~24.9x/39.0x/24.2x. Multiple is fair given longer-term risk of staffing disintermediation at low end [i.e. clerical]**. Risks to our thesis include:** continued Protiviti outperformance/public sector tailwind, staffing disintermediation at low end, pace of economic reopening and/or potential second closures.

Full Report

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CREDIT SUISSE

Steel | Forecast Change

21 July 2022

Nucor Corporation [NUE.N]
Mid-Cycle Earnings Power Remains Underappreciated – NUE is Cash Flow Machine

OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Jul-22, US$)	128.52
Target price (US$)	165.00
52-week price range (US$)	175.59 - 93.04
Market cap(US$ m)	34,543
Enterprise value (US$ m)	35,745

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Should Nucor be Viewed as a High Quality Industrial Company? Nucor operates an industrial conversion business model with extremely high degree of variable costs given scrap input and highly variable labor compensation. NUE has generated positive FCF each year even at the bottom of the cycle and has increased its dividend every year since 1973; few companies can lay claim to that feat. NUE has transformed itself into a much more diverse steel operator with sizeable market shares across most all major steel product categories and in downstream fabrication / tubular operations. The diversity inherent in the business creates much less earnings volatility than peers and we note Nucor over the past five quarters has averaged ~$30 in per share earnings power (albeit peak) and demonstrated significant capital return. We raise our 2022 EPS view to $30.90 to reflect upside in the Steel Products segment.

While 2023 is likely still above mid-cycle EBITDA levels for Nucor we believe our $16.45 EPS view (down from $17.00 on higher costs) is fairly close to normalized. In general, we model above mid-cycle metal spreads in long products / plate and more normalized spreads in the sheet market. We note that 4Q is typically a seasonally weaker demand period and we do see incremental supply pressure from the new EAF mills and thus could envision HRC prices moving to a near term trough before rebounding into 1H of 2023. We note that steel demand remains generally solid in the US outside of automotive and the industry is coming to the end of destocking cycle. Long products and plate appear well supported into 2023 as well.

Note Nucor's 10 year median multiple is 7.3x EV/EBITDA and we argue the company is a much higher quality enterprise today than ever. At some point, valuation will start to matter to the stock and we point to the 4.7x EV/EBITDA and 13% FCF yield off 2023 estimates as highly compelling. Unlike peers, Nucor has a clearly defined capital return policy in which a minimum of ~40% of net income is returned over time, and therefore we expect continued share repurchases over the medium term. We forecast cumulative FCF of ~$8bn over the next six quarters (total FCF yield of 26%). The successful ramp up at Gallatin & Brandenburg are also key catalysts ahead. Our TP of $165 and is based on 6.0x target 2023 EV/EBITDA or a 10% FCF yield. Key risks include new plant ramp execution, infrastructure demand, trade policy, raw material availability and pricing, and geopolitical dynamics.

Full Report

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CREDIT SUISSE

Railroads | Decrease Target Price

21 July 2022

Union Pacific [UNP.N]

Mixed quarter, as UNP hits brakes to focus on network recovery; 2H margin outlook a bit disappointing, but set-up into '23 looks good

- **Revenue beats on strong pricing gains, but costs increase even faster:** UNP posted 2Q EPS of $2.93, up +8% y-y, above our $2.83 and consensus' $2.84 targets. Results included an $80 mil. gain on sale of land to the Illinois State Toll Highway Authority (adds $0.10/sh), without which EPS would have been in-line. CEO Lance Fritz described 2Q as challenging, as UNP limited volume and took on additional expenses to improve network fluidity. Cost inflation and the impact of congestion was evident in results, as volume declined -1.4% y-y, offset by yield gains (rev/carload up +15.6% y-y, above our +11.1% estimate), resulting in Revenue growth of +14% y-y, $265 million above our target. Alternatively, operating expenses increased an even larger +25% y-y, driven by an +89% increase in fuel expense and a +30% increase in purchased services, resulting in OpEx $281 million above our target. Its 60.2% op. ratio represented a 510bps deterioration y-y, 200bps worse than our target, reflecting UNP's challenged (but improving) network fluidity.
- **Margin outlook a bit soft, but solid set-up into '23 on resilient demand:** UNP lowered its operating ratio outlook for the third time this year, going from a ~55.5% OR target at the start of the year, to an OR "beginning with '55' at 1Q22, and a recognition that "55 now unlikely" in June to its now revised 58% full-year OR target. This progressively deteriorating margin forecast reflects higher fuel prices and higher costs associated with network congestion. UNP expects to achieve y-y operating ratio improvement by 4Q22. We now target a 58.1% OR for '22 (from 56.8%) and a 56.2% OR for '23 (from 55.8%), which should be supportive of solid earnings growth next year, particularly if UNP can hold some of its recent pricing gains and drive volume growth. This should be achievable as network fluidity improves, and as demand continues to outstrip UNP's ability to serve.
- **Reiterate Outperform; Target Price to $252:** We reiterate our Outperform and raise our 2022, 2023, and 2023 adj. EPS estimates 1% each to $11.70, $13.25, and $14.55 from $11.60, $13.05, and $14.35, respectively. We lower our target price a touch to $252 from $255, rolling our target P/E to 19x our 2023 EPS estimate from prior 22x target on our 2022e EPS. Key risks to UNP center on elevated costs and an inability to improve network fluidity, though we think these challenges abate in 2H on increased hiring.

Full Report

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OUTPERFORM

Rating	OUTPERFORM
Price (21-Jul-22, US$)	211.90
Target price (US$)	(from 255.00) 252.00
52-week price range (US$)	276.69 - 196.01
Market cap(US$ m)	133,079
Enterprise value (US$ m)	167,275

Target price is for 12 months.

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CREDIT SUISSE

COMPANY UPDATES:

Communications Equipment | Pre Results Comment

22 July 2022

Motorola Solutions [MSI.N]
2Q22 Preview — Demand Remains Strong; FX Has Worsened; CMA Investigation On-going; MSI Remains CS Top Pick

- **2Q22 Preview, Model Unchanged**: We leave our model unchanged heading into 2Q22 results. We believe demand has remained resilient, discussed in our recent MSI note analyzing state/local budget reviews, suggesting only stronger trends. We are generally in-line with consensus for the upcoming quarter and in FY22 on both revenues and EPS.
- **Investor Sentiment**: Based on our conversations, investors acknowledge the demand drivers and durability of MSI's market position to capture increased public safety spending, however, there are three near-term items leading to investor reservations: FX headwinds challenging MSI's FY22 7% revenue growth rate, the UK CMA Investigation, and continued market volatility that has made it difficult for tech or high multiple stocks to work.
- **FX Headwinds Have Worsened:** In 1Q22, MSI mgmt. guided to a FX impact of $50M/$170M (~2% of rev) up from $110M) for 2Q22/FY22. Our updated model projects FX impact of $59M/$251M (~3% of rev) for 2Q22/FY22, worse than guidance but we believe this does not necessarily warrant a downward revision of the full year guidance given the strength seen YTD 2022 in public safety spend. We expect MSI to reiterate 7% revenue growth with continued gross/operating margin discipline in FY22.
- **CMA Investigation Update:** On June 28, 2022, the Competition and Markets Authority (CMA) published responses to the unpublished working paper from various parties, including the Home Office, MSI, and EE Limited. Both the Home Office and the CMA agreed that implementing a price control on Airwave to cap its profitability is an effective remedy, and enhancing transparency is the key to enforce the charge control. The responses from the Home Office in the working papers have not stated or suggested that MSI may be excluded from future ESN opportunities considering Airwave has a limited shelf life remaining (until 2026 based on the 2021 renewal), de-risking some investor concerns. Further, MSI believes the market investigation has aimed to re-write agreed terms of the Airwave contract in favor of the UK government, which is something the courts will need to manage/negotiate. Lastly, MSI believes it is challenging to enforce the charge control in the final years of the contract. Final CMA report expected Sept. 2022.
- **Thesis:** MSI remains indexed to multi-year public safety tailwinds on the back of strong budgetary environment, providing one of the only end-to-end public safety portfolios.
- **Valuation – Reiterate Outperform Rating and Target Price of $295.**

Full Report

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OUTPERFORM

Rating	OUTPERFORM
Price (21-Jul-22, US$)	222.22
Target price (US$)	295.00
52-week price range (US$)	272.73 - 197.00
Market cap(US$ m)	37,177
Enterprise value (US$ m)	41,665

Target price is for 12 months.

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Tenet Healthcare Corporation [THC.N]
2Q EBITDA (ex Cybersecurity Incident) Ahead of Ests Despite Negative Sentiment, Full Year '22 EBITDA Outlook Reaffirmed

- **2Q22 EBITDA Beats:** THC reported 2Q22 adj EBITDA (ex-grant inc) of $749 mln ($849 mln excl a cybersecurity event), exceeding CSe/Cons by $32.8/$30.0 mln. THC's results include $100 mln of EBITDA headwind from the cybersecurity incident which was disclosed previously offset slightly by $5 mln related to insurance proceeds that were received during the quarter. THC said the cybersecurity event adversely impacted hospital revenue and volumes, while contributing incremental costs as well. 2Q revs declined -6.4% Y/Y to $4.638 bln, below CSe/Cons by $105/$181 mln. 2Q22 ex-grant EBITDA margin expanded to 16.1% (vs 18.6% in Q1) and down from 16.8% in 2Q21.
- **2022 EBITDA Outlook Reaffirmed:** THC expects 3Q22 revs of $4.7-4.9 bln (cons: $4.9 bln) and adj EBITDA of $775-825 mln (CSe $809 mln, cons: $816 mln) for a margin of 16.5-16.8%. As for full year guidance, the company is including the $94 mln of grant income and $5 mln of insurance proceeds, slightly more than offset by the $100 mln cybersecurity headwind from the quarter but does not include anticipated future insurance proceeds. At the 3Q guidance midpoint of $800 mln and full year EBITDA of $3.475 bln, imply 4Q EBITDA is $944 mln (CSe $962 mln, Cons of $954 mln). Management noted that when comparing 3Q22 to 3Q21 EBITDA ($800 mln guided vs $851 mln ex-grant in 3Q21), divested Miami hospitals contributed $22 mln in 3Q21 that must be accounted for. Covid cases were also strong in 3Q21 due to the Delta wave. On 4Q EBITDA growth ($944 mln implied vs $877 mln ex-grant in 4Q21), management noted that historically, 4Q is very strong seasonally for USPI (in a normal year, which last year wasn't, but this hopefully will be), there will be incremental contribution from the second SCD acquisition (completed last December), and surges like Delta and Omicron are not expected to adversely impact the pace of normal hospital non-Covid volume as they did last year.
- **Other Miscellaneous Items**: THC bought back the remaining 5% of its JV with Baylor (I/S impact begins in 2H22). Otherwise, THC saw SS admits decline 8.1% Y/Y, while adj admits were down 5.3% and outpatient visits (incl ER) declined 10%. THC attributes much of the decline to the cybersecurity incident. COVID cases represented 3% of overall vols in Q2. Admits stepped up to 83% of pre-Covid levels in Q2, versus 81% in 1Q22. Outpatient visits rose to 86% of pre-pandemic levels versus 85% in 1Q22. USPI SS surgical case vols were down 0.9%, impacted by Covid, but were still at 100% of pre-Covid vols.

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OUTPERFORM

Rating	OUTPERFORM [V]
Price (21-Jul-22, US$)	59.54
Target price (US$)	104.00
52-week price range (US$)	91.20 - 50.62
Market cap(US$ m)	6,414
Enterprise value (US$ m)	20,023

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Avery Dennison Corp [AVY.N]

Dealing with, but not quite catching up with costs – Growing FX headwinds – Business remains on solid footing

NEUTRAL

Rating	NEUTRAL
Price (20-Jul-22, US$)	173.32
Target price (US$)	188.00
52-week price range (US$)	227.37 - 153.31
Market cap(US$ m)	14,163
Enterprise value (US$ m)	16,997

Target price is for 12 months.

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- **We maintain our Neutral rating and $188 price target.** We lower our 2022-24 EPS estimates by an average of 1.4%, reflecting a stronger US$.
- **AVY's margins are under pressure** but sales prices are rising and we expect organic performance to show a q/q and y/y improvement. FX headwinds should strengthen and we expect US$60m on 2022 operating income vs. AVY guidance of US$40m. We expect robust volumes in mature markets while we believe Asian operations could weigh on Q2 performance. Peer UPM (competes in LGM), reported lower y/y delivery volumes while prices more than offset rising costs and delivered flat EBIT in the quarter (y/y) with margins down 200bps and revenues up 16% (y/y). UPM's performance is consistent with our expectations for LGM's organic performance (excl. FX headwind) - RBIS and, in particular, RFID should deliver growth for AVY in the quarter with incremental benefits, including synergies, from recent acquisitions (Vestcom and Smartrac). We see the greatest macro risk in IHM, especially looking into H2.
- **AVY has derated** in line with overall market valuation maintaining its 5-year average relative P/E of 1.0x 12 month forward valuation of the S&P500. AVY's consistent performance and delivery of, or exceeding, challenging growth and margin target set by current management should, if continued, set the stage for a possible re-rating, in our view. However, near-term FX headwinds, inflationary margin pressure and macro challenges hold back progress and, we believe, multiple expansion ahead of market. Maintained high growth in high value RFID and margin recovery are factors we look for to increase conviction on the shares.
- **Catalysts and Risks:** Q2 22 results on July 27 2022. We see slowing organic growth and persistent high-cost inflation as the biggest risks to our estimates, target price and rating.
- **Valuation:** Our $188 TP is based on the average of (1) our DCF valuation (weight 50%), (2) applying a P/E of 16.2x on our 12m forward EPS estimate (25%), and (3) applying an EV/EBITDA multiple of 10.6x on our 12m forward EBITDA estimates (25%).

Full Report

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CREDIT SUISSE

21 July 2022

MarketAxess Holdings [MKTX.OQ]
2Q22 Earnings – Positive Market Share Offset by Lower Industry Credit Volumes and Fee Capture Pressure

NEUTRAL

MarketAxess reported 2Q22 earnings of $1.78 above the CS and FactSet consensus estimate of $1.70. We estimate core earnings were $1.72 excluding $0.11 of FX and $0.05 of tax. Despite stronger market share and better volume prospects for the MKTX platform, investor sentiment was mixed due to macroeconomic fee capture sensitivity. We believe investors are positive on MarketAxess' volume prospects in the event of an economic recession, but industry credit trading volumes screen subdued relative to the amount of credit volatility and market uncertainty. Additionally, we believe some investors may remain on the sidelines until macroeconomic pressure on duration and average maturity traded reverses. We have a Neutral rating on MarketAxess as we believe the stock could remain pressured over the next two quarters as the credit cycle potentially transitions from expansion to a potential downturn. Looking ahead, we believe MKTX could benefit from a pickup in transactional credit volumes and rate curve normalization which could alleviate fee capture pressure alongside higher credit trading volumes. See our Initiation Report: MKTX: Electronification Still Coming but Macro Sensitivity Is a Headwind to Future Growth; Initiate with a Neutral Rating.

- **Deep Client Networks and Protocol Breadth Key to Market Share Gains:** In 2Q22, MKTX's revenues increased to $182M benefitting from $18M of revenue contributions from higher market share offset by $5M of lower market volumes and $14M of fee capture pressure. In 2Q22, MKTX expanded its credit network to 1,935 total active clients including 982 international clients and 11,298 total active traders of which 5,269 were active international traders. We believe MKTX's 2Q22 volumes benefitted from client network depth and scale in the open trading (all-to-all) and RFQ (request-for-quote) protocols which helped the firm increase market share during the quarter.
- **Revising Estimates:** We reduce our 2022 EPS estimate to $6.74 from $6.79 to account for higher expenses but raise our 2023/24 EPS estimates to $7.86/$9.33 from $7.84/$9.14 owing to better market share prospects. Our target price of $305 is unchanged and is based on a 38x multiple on our 2023 cash EPS estimate of $8.04 (from $8.02). Risks include lower volumes, weaker market share and reduced fee capture.

Rating	NEUTRAL
Price (20-Jul-22, US$)	267.41
Target price (US$)	305.00
52-week price range (US$)	492.13 - 250.18
Market cap(US$ m)	10,093
Enterprise value (US$ m)	10,093

Target price is for 12 months.

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Full Report

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21 July 2022

Capital One Financial Corp. [COF.N]
2Q22 Beat On Provision, Opex; Strong Growth In Card, Commercial; Auto Pullback

OUTPERFORM

Rating	OUTPERFORM
Price (21-Jul-22, US$)	114.27
Target price (US$)	160.00
52-week price range (US$)	177.73 - 102.11
Market cap(US$ m)	44,914
Enterprise value (US$ m)	44,914

Target price is for 12 months.

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- **COF reported 2Q EPS of $4.96, above our estimate of $4.64 but below consensus of $5.09.** The beat against CSe was primarily driven by lower provision ($0.24 benefit), mostly due to a reserve release in domestic card (vs our expectation of a build) and lower opex ($0.27 benefit), though marketing remained very elevated, as COF continued to lean into marketing to grow its transactor business (e.g. the Venture X card). COF also benefitted from significantly higher buyback in the quarter, though the level will likely step down going forward. These offset lower-than-expected revenue ($0.15 impact), primarily due to lower NII (lower NIM). Loan growth was better-than-expected, particularly in commercial (due to growth in selected industry specialties) and to a lesser extent credit card (significantly better purchase volume as well). Credit card payment rate remained elevated in 2Q, partly a function of the growing transactor business. COF reiterated its desire to lean into marketing, though has noted some marginal tightening on card. Overall, we are **modestly positive** on the quarter, as we are more encouraged on the trajectory of loan growth going forward (particularly in commercial), while recognize the success COF has had so far with building its transactor franchise.
- **Estimates:** Adjust our 2022/2023 EPS estimate to $20.40/20.00 (old: $20.60/$20.00), reflecting 2Q results. Our target price remains $160, 8x 2023 EPS estimate. Reiterate Outperform rating. Risks to our estimate include deterioration in credit and higher opex.
- **Positives. 1)** Provision of $1.09 Bn came in below CSe of $1.20 Bn, driven by a reserve release in domestic card. Mgmt notes that credit continues to remain strong. **2)** Opex of $4.58 Bn came in below CSe of $4.72 Bn, though marketing remained elevated. **3)** Strong balance growth, particularly in commercial, and to a lesser extent in card. Card purchase volume was also 4pp higher than CSe. **4)** Share repurchase of $2 Bn was higher than CSe of $1.3 Bn.

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AT&T [T.N]

2Q22 Wrap – Macro & Business Services Outweigh Wireless Strength

NEUTRAL

- **What We Learned:** The headline this quarter is a $2B FCF guidance cut for 2022 (to ~$14B) due to macro (customers delaying payments), the cost of successfully acquiring higher wireless volumes, and Business Wireline missing. Management was not willing to reaffirm 2023 FCF guidance of $20B, though noted FCF conversion should improve Y/Y. We would not overly penalize AT&T's management or the company's value (we maintain our $21 target price) given how quickly and severely inflation and macro has shifted since their guidance was issued over a year ago, not to mention how aggressively AT&T has been reshaped with the spin/sale of DirecTV, WarnerMedia, and Xandr. At the same time, for those investors attracted by AT&T's expected macro resilience or 2023 valuation, elevated FCF uncertainty will have to be acknowledged. We continue to believe management's 5G and fiber broadband investment strategy – and the reduction in the company's complexity, debt balance, and dividend burden – is the correct path, though we also expect equity valuation creation requires proving out sustainable revenue/EBITDA growth (less copper/legacy, improved efficiency, sustained wireless share/pricing gains) and lower debt leverage allowing a return to stock buybacks.
- **Forecast Update:** With wireless volumes still sStrong, new guidance for 4.5-5% wireless service revenue growth, and strong 1Q results from Wireless and Consumer Wireline, we modestly raise those segments' estimates ('23 EBITDA +298M and +126M resp.). However, this is more than offset by deterioration at Business Wireline , where we lower '23 $688M (see our Lightyear.ai conference call recap for more on enterprise challenges). In all, we lower EBITDA for '22/'23 by $382M/$516M to $41.029B/$42.706B (PF +2%/+4%) and FCF by $2.0B/$927M to $14.0B/$17.25B. Our '22 Remainco EPS remains $2.47 vs management $2.42-2.46, while with less EBITDA we lower '23-'26 EPS by $0.06-$0.12 and FCF by ~$0.5-1B.
- **Valuation:** Our DCF-based target price remains $21/share. AT&T trades at 10x CS '23 FCF and a 5.9% *pro forma* dividend yield, ~60bp above Verizon. Risks: wireless market slowdown & competition (esp. TMUS in rural and cable/DISH); network/phone upgrade/fiber ROI; capital allocation.

Rating	NEUTRAL
Price (21-Jul-22, US$)	18.92
Target price (US$)	21.00
52-week price range (US$)	21.35 - 16.73
Market cap(US$ m)	135,448
Enterprise value (US$ m)	262,071

Target price is for 12 months.

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INDUSTRY UPDATES:

Metals & Mining | Weekly Analysis

22 July 2022

Mining Nuggets
This Week's Top Metals & Mining News

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Included in this weekly publication are top news stories – including commodity and company commentary – in addition to a chart pack with industry and company metrics. See the Chart of the Week.

- **Gold price action:** Continued downward pressure on gold prices this week and as a result, on gold equities. At the time of this writing, gold is trading ~$1,700/oz, its lowest level since March 2021 on continued U.S. dollar strength. Gold prices were down 0.4% from ~$1,705/oz at the end of last week. The latest inflation reading in Canada is 8.1% in June (vs. 7.7% in May), the highest level since 1983.

- **Franco-Nevada acquires Tocantinzinho gold stream:** On July 18, Franco-Nevada announced it would be providing in aggregate $352.5mm to G Mining Ventures to construct the Tocantinzinho mine in Brazil. The consideration being paid by Franco-Nevada consists of i) $250mm for a gold stream, ii) $75mm term loan, and iii) $27.5mm in G Mining Ventures shares. The gold stream will be for 12.5% of gold produced until 300koz have been delivered, then declining to 7.5% for LOM. On our math, assuming $1,650/oz gold and the current estimated mine life, the IRR on the stream is ~4%. See our note.

- **Barrick in Balochistan:** On July 19, Barrick issued a press release highlighting the benefits of the Reko Diq copper-gold project to the province of Balochistan in Pakistan. Barrick CEO Mark Bristow met with Balochistan chief minister Abdul Quddus Bizenjo, and highlighted that under the current framework agreement, Balochistan would own 25% of Reko Diq without having to commit capital to the project. In an earlier press release on July 18, Barrick noted, "The definitive agreements underlying the framework agreement are currently being finalized by teams from Barrick and Pakistan."

- **Wheaton Precious Metals adds sustainability-linked revolver:** On July 18, Wheaton Precious Metals announced it added a sustainability-linked element as it extended its $2bn (currently undrawn) revolving credit facility by a year to 2027. Under the renewed revolving credit facility, the interest rate paid on drawn amounts and standby fees will be adjusted based on: i) Wheaton's attributable emissions from third-party mining partners operations covered by science-based emissions targets, ii) diversity at the Wheaton group's board/management level, and iii) Wheaton's S&P ESG score.

- **Lundin Mining announces interim emissions reduction target:** On July 19, Lundin Mining released its 2021 sustainability report, in which it announced its new target to reduce the company's scope 1 and scope 2 GHG emissions by 35% by 2030 (vs. 2019 baseline year).

- **Q2-22 earnings kick off next week:** Q2-22 earnings kick off on July 25 with Newmont (before market open), followed by Agnico Eagle, Kinross, Alamos Gold, and Lundin Mining on July 27 (after market close), and Yamana and Eldorado Gold on July 28 (after market close). Refer to our Q2 earnings calendar.

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U.S. Multi Industry
Construction Drill Down: Construction Markets in Pictures – July 2022

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Key Takeaways: While there are very early signs of construction demand weakening in July (backlog indicator contracted), we do not think there has been any shift in fundamentals driven by continued strength across multiple indicators. Despite growth in Housing permits, we note that continued contraction in Housing Starts supports our preference for Commercial & Institutional buildings and Industrial facilities (e.g., warehouse/e-commerce). We are more positive on the renovation and retrofit oppty within the installed base driven by secular themes around energy efficiency/decarb, smart/digital buildings, and healthy spaces (e.g., indoor air quality). While companies remain constrained by supply chain challenges (suppliers' delivery time index in U.S., Japan and China grew), we highlight that commodity price indexes in U.S., Japan, and China are all coming down. This should drive positive price/cost spread in H222 (HVAC pref), but we note investor concern around elevated price.

Quick Geographic Commentary: Although gas flow resumed at Nord Stream 1, the shutdown has refreshed investors' concern for Europe's dependence on Russia for energy. We think China lockdowns are another focal point due to the increasing number of cases (On 7/19 and 7/20, country reported 935 and 826 cases, respectively). Official China data continue to show weakness (7 of 7 metrics contracting). Land space purchased fell 48.3% y/y (down from a 45.7% contraction in May) whereas transaction value of land fell 46.3% y/y (down from a 28.1% contraction in May). On 7/16-7/17, the number of projects under mortgage boycott was >300. A further context is that the housing vacancy rate in major Chinese cities is between 15-25%. Nevertheless, China is easing while the rest of the world is tightening, which could result in better metrics 6 months on. We remain positive on U.S.-centric stocks with reasonable H2 vs. H1 leverage embedded in cons's ests.

Earnings Watch Items – Construction: We expect healthy fundamental Q222 profit performance, but that stock multiples will be driven by macro sentiment and concerns that 2023 consensus estimates remain too bullish given U.S and European tightening. We do not expect the quarter to act as a catalyst. We see opportunity in TT (price/cost, non-resi), and while we continue to rate JCI Outperform, we are mindful of supply chain issues. Despite China concerns, Kone saw a mixed reaction. OTIS is ~20% China. In terms of data point, we are watching order patterns (comparisons are more difficult this quarter), early FY23 outlook (e.g., ATKR/JCI), supply chain (broadly stable to better), and new CEO commentary at ALLE and LII.

COVID-19 Highlights: Per Brivo Commercial Reopening Index, we note that states and industries' recovery are starting to flatten out. Construction industry is 48.5% above pre-pandemic levels (vs 33.6% in June) when tracking daily active users of comm'l properties. On the labor front, the number of construction employees continued to rise to 7.67 mn while the number of job openings fell slightly to 434,000 openings (440,000 in April).

Charts and Table of Contents: Inside the note, we highlight our 66 favorite global construction charts and tables that cover U.S., European, and Asian markets. This Month Spotlight consist of some charts we think are useful for earnings.

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US Midstream & MLPs
Termination of Coverage

- We are terminating coverage of LNG, CQP, DCP, DKL, DTM, ET, ENLC, EPD, ETRN, HEP, KMI, KNTK, MMP, MPLX, NFE, NEXT, NGL, OKE, PBFX, PAA, PAGP, RTLR, SUN, TRGP, TELL, WES, WMB due to the analyst's departure from Credit Suisse.
- Effective with this termination of coverage, our final ratings, target prices, and estimates are no longer in effect.
- Please refer to the Disclosure Appendix for the valuation methodologies and risks associated with our last ratings and price targets.

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