Equities Research

CREDIT SUISSE

First Edition - US Alert Tuesday, April 18, 2023

18 April 2023
Credit Suisse Global Product Marketing

Ratings Changes:

Estimate / Target Price Changes:

Company Updates:

Industry Updates:

RATINGS CHANGES:

Biotechnology | Downgrade Rating

17 April 2023

Prometheus Biosciences, Inc. [RXDX.OQ]
Model Update

Downgrade to NEUTRAL

Model Changes: Follow the announcement that Merck will acquire RXDX for $200/share, we are raising our TP to $200 (from $139) and downgrading shares to Neutral (from Outperform). Specifically, we have increased our M&A weight to 100%, refined our M&A synergy assumptions, slightly increased the PoS for PRA023 in both UC and CD to reflect Merck's clinical trial capabilities and experience, and decreased our discount rate to 8.5%. Our blue-sky scenario of $220 assumes a competitive bid, while our grey-sky scenario of $65 assumes the deal fails to close, failure in CD, and a lower PoS for UC. Risks include a competitive bid and/or delay/termination of the transaction.

Rating	(from OUTPERFORM) NEUTRAL [V]
Price (14-Apr-23, US$)	114.01
Target price (US$)	(from 139.00) 200.00
52-week price range (US$)	126.29 - 22.39
Market cap(US$ m)	5,419
Enterprise value (US$ m)	4,770

Research Analysts

Tiago Fauth

Jonathan Woo

Daniel Kim

Geoffrey Weiner, MD PhD

Full Report

Date of Production: 17-Apr-2023 18:22:03 UTC Date of Dissemination: 17-Apr-2023 20:00:48 UTC

ESTIMATE / TARGET PRICE CHANGES:

Investment Banking & Brokerage | Increase Target Price

18 April 2023

The Charles Schwab Corporation [SCHW.N]
Updating Estimates Post-1Q23 Earnings & Spring Business Update; Increase Target Price To $66.50

OUTPERFORM

Rating	OUTPERFORM
Price (17-Apr-23, US$)	52.77
Target price (US$)	(from 65.50) 66.50
52-week price range (US$)	85.62 - 48.87
Market cap(US$ m)	93,288
Enterprise value (US$ m)	48,490

Target price is for 12 months.

Research Analysts

Bill Katz

Michael Kelly

Cameron Phillips

- **Refined Outlook Post-1Q23 Earnings & Spring 2023 Business Update –** Overall, key financial guidance is mostly in line with our prior view, but we modestly tweak higher our 2023-25E adjusted EPS to reflect 1Q23 results and refreshed key model assumptions (our 2Q23 point estimate is largely unchanged as we were already in line with management's expectation for a mid-to-high single-digit Y/Y net revenue decline).

- **Tweaking Up 2023-25E Adjusted EPS –** To $3.24/$4.01/$5.07 (from $3.16/$3.89/$4.95). Changes primarily reflect updated forward interest rate expectations (as of 4/17), QTD market returns, higher regulatory expenses, and refined B/S assumptions. On the B/S, we tweaked our additional short-term borrowing (FHLB) assumptions to account for higher borrowing than expected in 1Q23 (we now expect SCHW to borrow an additional ~$30B through 3Q23 vs. ~$45B previously). On client cash sorting, we slightly raise our April 2023 deposit-related outflows to account for seasonal tax payments but continue to expect sorting pressures to abate by 4Q23 (consistent with management's expectations that deposit inflows return in 2023). On expenses, we raise our regulatory expense outlook even further for 2023-25, but continue to expect overall adjusted expense growth of ~7%, ~6%, and ~5.5% Y/Y in 2023-25E, respectively – our 2024-25 expectations may prove conservative if AMTD-related synergies are higher-than-expected and organic investment spend slows faster-than-expected (which management eluded to – potentially setting up the next positive catalyst, in our view).

- **Other Model Tid-Bits –** In speaking with management, they noted that during the quarter they repurchased tranches of various preferred shares at a discount, resulting in lower dividend expense (which paced most of the beat to CSE in 1Q23). While we do not know the updated amount outstanding for each series yet, we would expect a modest incremental benefit to our preferred dividend assumptions moving forward all else equal.

- **Reiterate Contrarian Outperform; Raise SOTP-Derived Target Price To $66.50 (From $65.50) –** We are not surprised the shares traded ~4% higher on 4/17 as management assuaged key investor concerns and our 2024 adjusted EPS estimate rises by ~3.2%. As we have noted, we believe that potential changes to regulatory capital requirements/B/S (i.e. IEA) strategy and recent client cash sorting behavior may cap SCHW's P/E multiple below its historical range moving forward. As a result, we apply 15.0x (unchanged) to our 2025E adjusted EPS (discounted 18 months), which is based on our proprietary implied rates regression-based multiple with an ~2.0x discount. Risks to our thesis include: reacceleration in cash sorting and deterioration of key macro factors.

Full Report

Date of Production: 18-Apr-2023 00:35:53 UTC Date of Dissemination: 18-Apr-2023 08:01:37 UTC

West Fraser Timber Co Ltd. [WFG.N]
Measuring the Moderation; Target Price Trimmed to US$92.50 from US$97

OUTPERFORM

Rating	OUTPERFORM
Price (14-Apr-23, US$)	77.27
Target price (US$)	(from 97.00) 92.50
52-week price range (US$)	101.99 - 68.92
Market cap(US$ m)	6,280
Enterprise value (US$ m)	5,617

Target price is for 12 months.

Research Analysts

Andrew M. Kuske

James Aldis

Selena Zhou

- **Cyclicality Considerations:** This note updates our **West Fraser Timber Co Ltd (WFG)** forecasts for a variety of reasons – largely focused on pricing moderation versus past views and rather lacklustre housing market activity. For US housing market views, we rely, in part, on the proprietary work of Credit Suisse's US Homebuilding Team's survey (*Monthly Survey of Real Estate Agents: March 2023*) with key views that included: **(a)** mixed March activity "with generally healthy traffic, but losing momentum in many key markets"; **(b)** buyer traffic was consistent, but momentum is declining "in many key new construction markets"; and, **(c)** the team expects "choppiness in 2023 as potential buyers digest the more difficult affordability, but also see only limited inventory for sales". These views are consistent with our concerns over the potential for mixed and sometimes negative data points – albeit with positive potential in a severely cyclical industry (as per this note and past work: Upgrade to Outperform (from Neutral); Views on Value with Highlighted Headwinds).

- **Talking about Timing:** Forest product stocks are notoriously cyclical and often with rather accentuated moves – in both directions and the "perfect timing" is typically elusive. Rate moves in H2 2023 (potentially declining) along with the current housing price compression bode well for affordability and return to improved prices and solid wood demand.

- **Investment Thesis:** We believe West Fraser has an enviable position in both lumber and OSB markets; however, pricing and housing dynamics are not currently overly supportive.

- **Valuation:** Model updates included Q4 actuals and other adjustments and, as a result, our 2023e and 2024e EPS moved to US$0.98 and US$4.74 from US$4.23 and US$5.48, respectively. We introduce our revised US$92.50 (prior US$97) target and reiterate the Outperform rating that is based on multiple methods, including: **(a)** a 2024e-driven NAV that includes a 7.5x multiple on the Lumber segment (prior 5.5x); a 4x multiple on the Pulp & Paper segment; and 5.5x multiples on North American and European EWP segments; **(b)** an implied 16.1x (prior 17.4x) P/E valuation on 2024e; and, **(c)** an implied 5.7x (prior 6.5x) EV/EBITDA multiple on 2024e. Risks to our rating and target price, include: **(a)** housing market dynamics; **(b)** interest rates; **(c)** commodity prices; **(d)** FX; **(e)** input costs; and, **(f)** operating risks from the underlying business including regulatory and political.

Full Report

Date of Production: 17-Apr-2023 17:22:34 UTC Date of Dissemination: 18-Apr-2023 04:01:53 UTC

State Street Corp. [STT.N]

Circling back… reducing estimates to reflect a revised NII outlook/less favorable deposit mix/flows; TP now $80

NEUTRAL

Rating	NEUTRAL
Price (17-Apr-23, US$)	72.68
Target price (US$)	(from 84.00) 80.00
52-week price range (US$)	94.11 - 59.84
Market cap(US$ m)	24,454
Enterprise value (US$ m)	24,454

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

Earlier today, State Street reported 1Q23 GAAP earnings of $1.52 per share/operating eps of $1.58 ex items; either way, falling short of our $1.67 estimate and the FactSet consensus at $1.64. The shortfall relative to our estimate was revenue/largely NII-driven, with the headwind of deposit outflows (noninterest bearing in particular) impacting the forward look. **With respect to estimates…** considering both the incremental pressure on NII tied to a forecast incremental decline in noninterest bearing deposit balances (lower NII is the biggest driver our downward estimate revision), some fine tuning around both the tax rate and the pace of share buybacks, and a recalibration of fees higher into 2Q, our 2023 estimate declines to $7.70 per share (prior: $8.25); our 2024 estimate declines to $8.75 per share (prior: $9.40). Factoring in both our estimate revisions and the pace of capital generation, takes our target price to $80 from $84 (see derivation below). **Risks (+/-) to the achievability of our estimates and target price** tie to the macro and market backdrop (i.e., the level and shape of the yield curve, market values, market volatility, and net asset flows) as well as the pace and profitability of net new business generation.

- **For a snapshot of 1Q fundamentals,** we refer to this morning's note: STT: 1Q23 shy of expectations; first thoughts
- **New business generation…** $112bn in gross new servicing wins in 1Q23 (one new Alpha mandate; 12 mandates are now live); $3.6tn in gross new business yet to be installed as of quarter end; management spoke to an accelerated pace of new business installation into 2Q23—this would be a supporting positive. The Front and Middle office uninstalled revenue backlogs stand at $100mn and $104mn (vs $97mn/$104mn at year end), respectively.
- **Our $80 target price** is derived by applying our weighted average valuation methodology using a revised 10% weight on our blue sky scenario of $105, a 50% weight on our DCF-derived base case scenario of $93, and a 25% weight on our gray sky scenario of $59; this target price translates to 10.4x our 2023 operating eps estimate and 1.9x forecast year end 2023 tangible book value per share.

Full Report

Date of Production: 17-Apr-2023 23:24:13 UTC Date of Dissemination: 17-Apr-2023 23:25:41 UTC

Citigroup Inc. [C.N]

Circling back… embedding 1Q eps upside as well as incremental conservatism tied to the market/macro outlook; TP unchanged at $54

NEUTRAL

Rating	NEUTRAL
Price (17-Apr-23, US$)	49.69
Target price (US$)	54.00
52-week price range (US$)	54.38 - 40.45
Market cap(US$ m)	96,720
Enterprise value (US$ m)	96,720

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

On Friday, Citi reported 1Q23 earnings of $2.19 per share/$1.86 excluding a realized gain on the sale of the India consumer banking business; with or without that gain, results bested our $1.54 estimate and the FactSet consensus at $1.65. Results translated to a ~10.9% ROTE / 9.3% excluding divestiture gains; CET 1 at 13.4% is now solidly in excess of management's target—excess is a good thing, putting ample cushion in place to manage market exits (e.g., Mexico sale and the digestion of the related ~$3bn CTA) and support share buybacks… when? expect management to evaluate buy backs quarter to quarter; we assumed a conservative start/ modest buybacks in the back half of this year. With respect to the forward look… first-quarter results were above forecast, enough so as to support an increased estimate for 2023, even after embedding incremental conservatism with respect to the credit cost trajectory, the market-related revenue progression, and the pace of buybacks; we've raised our 2023 estimate to $6.50 per share (from $6.25). Following through with that incremental conservatism, our 2024 estimate comes down to $6.85 per share (from $7.60). Considering both estimate adjustments and excess capital accumulation, our target price is unchanged at $54. **Risks +/- to the achievability of our estimates and target price** tie to the macro and market backdrop, the cost/benefit of strategic initiatives (transformation, market exits), competitive positioning in the core of the Citi franchise, and regulatory dynamics (including CCAR, the Basel III end game and the Fed's response to recent events/the holistic capital review).

- **For a snapshot of 1Q23 fundamentals,** refer to Friday morning's note: C: 1Q23 First Impressions. **For a more detailed strategic update,** we refer to our takeaways from our 1Q23 meeting with Citigroup CEO Jane Fraser: One Step at a Time on the Path to Improved Returns; Management Meeting Takeaways; and highlights from the 24th Annual Credit Suisse Financial Services Forum where business head Shahmir Khaliq spoke to prospects for the TTS business.
- **Our target price of $54** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $76, a 50% weight on our DCF-derived base case of $61, and a 40% weight on our gray sky scenario of $39; translating to 8x our 2023 EPS estimate and 0.6x forecast year end 2023 TBV.

Full Report

Date of Production: 17-Apr-2023 22:04:20 UTC Date of Dissemination: 17-Apr-2023 22:05:18 UTC

PNC Financial Services Group [PNC.N]
Circling back… reducing estimates on a reduced NII forecast; TP now $145

NEUTRAL

Rating	NEUTRAL
Price (17-Apr-23, US$)	125.09
Target price (US$) (from 165.00)	145.00
52-week price range (US$)	179.64 - 119.70
Market cap(US$ m)	49,911
Enterprise value (US$ m)	49,911

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

On Friday, PNC reported first quarter earnings of $3.98 per share (CS at $3.70; FactSet consensus of $3.66). Upside was driven by the combination of marginally higher revenue (versus forecast; more fees/weaker NII), lower provision expense (LLR build was less than we'd forecast) and a lower tax rate. Reported ROTE was a very respectable 22% on quarter end CET 1 of 9.2%. **Looking forward… we're reducing estimates to reflect slower NII growth, consistent with trends observed in the first quarter** i.e., the incremental benefit of higher short term interest rates on loan and securities portfolio yields offset by higher funding costs (higher deposit beta and here too a mix shift out of noninterest bearing deposits); our 2023 estimate now embeds a 5% NII decline relative to the 4Q22 annualized run rate. Factoring in our revised NII forecast (the biggest driver of our downward eps revision), with a moderation in expected fee revenue growth, and some fine tuning on both credit costs and the pace/ magnitude of share buybacks, we're reducing our 2023 and 2024 estimates to $13.80 and $14.25 per share, respectively (prior: $14.80 and $15.65). Factoring in both our estimate revisions and forecast free capital generation, our target price comes down to $145 (from $165). **Risks (+/-) to the achievability of our estimates and target price** tie to the macro and market backdrop (i.e., the level of interest rates, deposit flows/mix, business and capital markets activity and credit quality migration) and regulatory dynamics (including the Fed's upcoming capital review).

- **Snapshot of 1Q fundamentals:** PNC: 1Q23 First Impressions
- **Our revised target price of $145** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $208, a 50% weight on our DCF-derived base case scenario of $176, and a 40% weight on our grey sky scenario of $90; this target price translates to 10.5x our 2023 and 10.2x our 2024 eps and ~1.7x year end 2023 tangible book value per share.

Full Report

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Wells Fargo & Company [WFC.N]
Circling back… fundamentals/NII on track; trimming estimates to factor in a more conservative macro/market view

OUTPERFORM

Rating	OUTPERFORM
Price (17-Apr-23, US$)	41.30
Target price (US$)	55.00
52-week price range (US$)	48.65 - 36.23
Market cap(US$ m)	155,420
Enterprise value (US$ m)	155,420

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

Wells Fargo reported first quarter earnings of $1.23 per share solidly above our $1.15 estimate and the FactSet consensus of $1.13. The upside relative to our forecast was revenue-driven; credit costs came in higher on more loan loss reserve build. All in, first quarter results translate to a respectable 14% ROTCE on CET 1 of 10.8%. **On fundamentals, the forward look and our estimates…** fundamentals were in synch with forecast, from NII (marginally above our forecast for the quarter even with an adverse deposit mix shift/out of noninterest bearing and higher deposit beta, to expenses (on track to $50.2bn ex operating losses; our estimate embeds $1.5bn of operating losses); manageability of the credit cost trajectory ought to be improved by the conservatism embedded in existing loan loss reserves and capital accumulation signals ample flexibility for continued capital returns. **Where to on estimates…** we've factored a more conservative macro and market view into our estimates, with a heavier hand into 2024. Our 2023 estimate is unchanged at $4.75 per share; we've trimmed our 2024 estimate to $5.15 per share (prior: $5.45). **Risk (+/-) to the achievability of our estimates and target price** ties to the macro (the level of interest rates, loan demand/deposit flows, market-related revenue support, credit quality migration), regulatory dynamics (including CCAR, the Basel III end game and the Fed's response to recent events/the holistic capital review) and the micro (earning power still impacted by consent orders).

- **For a snapshot of 1Q fundamentals,** we refer to Friday morning's note: WFC: 1Q23 First Impressions
- **Our $55 target price** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $75, a 50% weight on our DCF-derived base case scenario of $67, and a 40% weight on our grey sky scenario of $36; our $55 target translates to 11.6x our 2023 estimate and 1.4x forecast year end 2023 tangible book value per share.

Full Report

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Diversified Chemicals | Expert Insights

17 April 2023

CF Industries [CF.N]
Rainbow Ammonia 101 from the Experts

- **Recent World Petrochemical Conference featured several sessions on ammonia as a fuel.** CF Industries is the global leader in ammonia/nitrogen fertilizers, and one of a growing number of fertilizer, chemical, energy & industrial gas companies entering the fuel ammonia market. Ammonia presentations were made by ammonia producer OCI, the Ammonia Energy Association, hosting S&P Global Commodity Insights. A presentation on closely related e-Methanol was also made by European Energy. We also recently provided a review of the fuel hydrogen market, a review of the nylon market (largest chemical use for ammonia).
- **Ammonia (NH_3) increasingly valued for its hydrogen rather than nitrogen molecule.** The primary use of ammonia is for the plant nutrient value of nitrogen, with the hydrogen largely wasted. But as hydrogen emerges as a low/no-carbon replacement for nat. gas, ammonia can become a carrier molecule, somewhat like LNG. Ammonia can be burned directly (displacing coal in existing plants) or disassociated back to nitrogen & hydrogen (which can also be used in fuel cells). Ammonia from nat gas with carbon capture & sequestration is "blue" (or "grey" without CCS, & "brown" if from coal); from electrolysis, hydrogen is "green" ("pink" if electricity is nuclear); & from nat. gas pyrolysis is "turquoise".
- **About $12B of ammonia capex alone in North America is expected in 2023-2024, largely for fuel ammonia (140 projects announced globally).** The first world plants start up in 2026 – blue ammonia in the U.S. Gulf and green ammonia in Saudi Arabia (both Air Products). ExxonMobil (blue ammonia in the U.S.) & BP (green ammonia in Australia) are entering the fuel ammonia market. Many nitrogen fertilizer firms have projects (including CF, Nutrien, and OCI w/ Linde). At some point, there could be a food vs fuel debate as farmers & energy demand for ammonia compete, similar to when ethanol created competition for corn between fuel & food demand.
- **Valuation & risks:** Our $75 target price represents ~5.5x forward NTM (Q5-Q8E) EBITDA of $2.6B. Upside risks to our Underperform rating include continuing disruptions to curtailed export capacities, or a wide oil-gas spread (which benefits CF's gas-based nitrogen fertilizer margins).

Full Report

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UNDERPERFORM

Rating	UNDERPERFORM
Price (14-Apr-23, US$)	77.08
Target price (US$)	75.00
52-week price range (US$)	118.35 - 69.30
Market cap(US$ m)	15,106
Enterprise value (US$ m)	15,197

Target price is for 12 months.

Research Analysts

Edlain Rodriguez

John Roberts

Matthew Skowronski

SLM Corp [SLM.OQ]

March Trust Data: Losses down in March, well below Q4; Delinquency Better in March

OUTPERFORM

Rating	OUTPERFORM
Price (14-Apr-23, US$)	14.32
Target price (US$)	20.00
52-week price range (US$)	20.14 - 11.27
Market cap(US$ m)	3,454
Enterprise value (US$ m)	(1,162)

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Overall, March delinquencies were down 20 bps m/m, in line with seasonals (-27 bps), with half of the improvement in early-stage delinquencies. Late stage delinquencies were flat, which means that near term losses are likely to not deteriorate. As % of loans in full P&I, delinquency improved 27 bps from Feb, and 12 bps in early stage delinquency. NCOs on total loans were down 24 bps m/m to 2.34%, and NCOs on securitized loans in full P&I were down 36 bps m/m to 3.47%. SLM noted last month that losses in the total portfolio were ~100bps better than Q4 in 2023 YTD (Jan/Feb). We believe this means the total portfolio is performing better than the trusts.

- **DQs:** March trust DQs as % of total loans were 3.82% vs last month's 4.01%, last year's 3.85% and pre-pandemic March 2019's 2.43%. March's DQ rate is down 3 bps y/y and -20 bps m/m in line with m/m historical of -27 bps in March. DQs improved both in early stage and 60-90 day. Trust balances were down 1.8% in March, likely also pressuring trust metrics. March DQs as a % of loans in full P&I were 5.48% vs last month's 5.75% & prior year's 5.53% and March 2019's 3.88%. March was -5 bps y/y and -27 bps m/m vs historical -37 bps. Del in full P&I showed late stage delinquencies were flat m/m.
- **NCOs:** March's NCO rate as a % of securitized loans was 2.34% vs last month 2.58%, PY 2.44% and March 2019's 0.91%. March is down 9 bps y/y and down 24 bps m/m (vs historical m/m -8 bps). March's NCO rate as % of loans in full P&I was 3.47% vs Feb's 3.83%, last year's 3.61%, and March 2019's 1.51%. March was down 14 bps y/y and down 36 bps m/m (vs historical m/m change of -15 bps). Q1 2023 avg is ~55bps lower than the Q4 avg, slightly less improvement than cited by SLM management in March, as the trusts are more seasoned than the total. We would expect to see somewhat more improvement in the overall portfolio than the trust portfolio.
- **Forbearance:** March forbearance levels were 1.19% vs Feb's 1.3% and PY 1.3% and March 2019's 3.8%. Loans in forbearance as a % of loans in repayment were 1.76% vs Feb's 1.9% and prior year 1.9%, down 14 bps m/m vs historical +84 bps m/m change.

Full Report

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Biotechnology | Company Update

17 April 2023

Ikena Oncology, Inc. [IKNA.OQ]

IK-930 Poster Presentation @ AACR Highlights Differentiated TEAD1 Selective Profile

OUTPERFORM

Rating	OUTPERFORM [V]
Price (17-Apr-23, US$)	5.00
Target price (US$)	13.00
52-week price range (US$)	6.80 - 2.00
Market cap(US$ m)	181
Enterprise value (US$ m)	38

Research Analysts

Judah C. Frommer, CFA

Nick Japhet, CPA

Ikena presented preclinical data for IK-930, a TEAD paralog selective inhibitor, at AACR today along with publication of the first of two abstracts to be presented at the conference. Recall that upstream mutations in the Hippo signaling pathway prevent phosphorylation of YAP/TAZ and its subsequent degradation. Unphosphorylated YAP/TAZ localizes to the nucleus and activates transcription factors in the TEA domain family (1-4) to promote tumorigenic cellular proliferation. IK-930 selectively inhibits TEAD1 by targeting a divergent lipid-binding pocket. Palmitoylation inhibition at the binding pocket leads to the preferential association of TEAD1 with the repressor VGLL4 as opposed to activators YAP/TAZ. **Data presented at AACR today included *in vitro* TEAD binding assays and 28-day NHP urinary protein creatinine ratios demonstrating '930's differentiated profile.** A second abstract to be presented tomorrow for *in vitro* administration of '930 with concurrent EGFR, KRAS G12C, or MEK inhibition will further elucidate the role of TEAD in resistance mechanisms. We additionally highlight preliminary efficacy data from Vivace's first-in-human (FIH) Ph1 of a pan-TEAD inhibitor, VT3989. **Initial clinical data from the monoTx cohort of a Ph1 study of '930 in Hippo-altered cancers are expected in 2H23.** ComboTx with osimertinib and '930 is expected to initiate in 2023.

Differentiated Profile of '930. In a cell-based binding assay (nanoBRET), the **IC_{50} for TEAD1, 2, 3, and 4, respectively, was 0.091, 15.53, >20, and >20 µM with '930** and 0.030, 0.51, 0.041, and 0.32 for a pan-TEADi. TEAD1 paralog selectivity is expected to confer a safety benefit in the context of proteinuria, a known kidney safety signal for the pathway. Western blot indicated enhanced VGLL4/TEAD1 binding. Osimertinib and '930 demonstrated greater apoptosis of tumor cells than osimertinib alone. A differential effect was absent with TEAD1 or VGLL4 downregulated tumor cell lines indicating that '930's mechanism is mediated by TEAD1/VGLL4. **28-day NHP data also showed a stable urinary protein creatinine ratio at all doses of '930 tested**, suggesting a broader therapeutic index for TEAD1 inhibition vs. pan-TEAD inhibition. We look forward to maintained renal tolerability of '930 in the Ph1 considering the role of the Hippo pathway in renal physiology. The abstract also highlighted greater TEAD1 expression than other paralogs in mesothelioma and epithelioid hemangioendothelioma (EHE).

Full Report

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Thematic Research | Environmental, Social and Governance (ESG) Research

17 April 2023

California Resources Corporation Takeaways from Fireside Chat with Senior Management

Research Analysts

Betty Jiang, CFA

Last week, we hosted a fireside chat with incoming CEO of California Resource Corp (CRC), Francisco Leon, and Chief Sustainability Officer, Chris Gould. In the one-hour discussion (email us for replay details), management shared their thoughts on California climate policies, the massive carbon capture business opportunity, early challenges of developing a new carbon value chain, and the need to realize energy transition business value within an E&P company. In our view, CRC exemplifies a traditional E&P company in transition and one that leverages its strategic competitive advantage to enable solutions necessary in a low-carbon economy.

- **Brief company background.** CRC was spun off of Occidental Petroleum in 2014 and it operates a low-decline, oil-weighted E&P business primarily focused on secondary recovery of conventional reservoirs. As of YE 2022, it owned ~1.9 million net mineral acres, the largest non-governmental mineral acreage position in California and has shot extensive 3D seismic across its acreage. This data enables CRC to de-risk and develop substantial carbon storage (up to 1 billion metric ton potential) and to be a critical part of an emerging carbon capture value chain in California. Last year, CRC entered into a JV with Brookfield Renewable where Brookfield commits $500 million, through its $15 billion Global Transition Fund, to jointly develop carbon capture and storage (CCS) projects. The JV has a goal of reaching 5 million metric tons per annum (MMtpa) of carbon injection and 200 million metric tons (MMt) of carbon storage by 2027.

Making a strong case for carbon capture in California

- **Ambitious state decarbonization goals and enabling policy environment.** California has signed 2045 carbon neutrality into law and has set a goal of reaching 20 MMtpa of carbon removal/capture by 2030 and 100 MMtpa by 2045. To put that into perspective, the 2045 goal is ~25% of the state's current GHG emission of over 400 MMtpa. CCS is important not just for mitigating existing emissions but also enabling future low carbon alternatives, such as blue hydrogen and ammonia. Management is encouraged by state agencies' efforts to support carbon capture, utilization and storage (CCUS) developments. They cited recently passed Senate Bill 905 which tasks the California Air Resources Board (CARB) to establish a program to evaluate technologies, streamline permitting, and set-up tracking/monitoring systems for CCUS projects in the state.
- **California offers carrots and sticks, which work in tandem with federal incentives to drive climate action.** California uses two major state climate policies, Low Carbon Fuels Standard (LCFS) and Cap-and-Trade, as a "carrot-and-stick" approach to decarbonization. LCFS only applies to the transportation sector and compensates (currently ~$78/ton) any fuels that have lower carbon intensity than the benchmark (which comes down every year). This adds incentives for alternative fuel producers (e.g. biofuels, hydrogen) to reduce their emissions via carbon capture. Meanwhile, cap-and-trade (latest auction at ~$28/ton) is the "stick" that would penalize industrial emitters for not meeting emission reduction goals. By operating in California, CRC benefits from both state and federal incentives as well as the long-term visibility of a state-level carbon price to drive towards net zero.

Full Report

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Canadian Banks
OSFI Balance Sheet February 2023 – Overall Loan Growth Remained Solid, Deposits Also Grew M/M

Research Analysts
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In this report, we discuss balance sheet growth for the Canadian banks, based on regulatory data from OSFI for February 2023 (one month into Q2/F23 for the Canadian banks).

The Bottom Line: Total bank loans grew at a solid pace in February, with a softer showing from domestic loans, and a better performance from the non-domestic portfolio. While the banks continued to report slowing momentum for real estate secured-lending into February, we believe some support should exist for Q2/F23 based on a modest uptick in the housing market activities in March as we highlighted in our prior report. Overall, there was some divergence in the loan growth performance, with BMO and NA outgrowing their peers on the domestic side, and CM also posting strong growth south of the border. On deposits, while total deposits were up modestly in February, the shift to fixed-term (higher cost) deposits also continued. We also highlight a stronger showing on deposit market share from CM, while TD reported a modest decline in deposit balance for the month.

- **Slowing Domestic Loan Growth:** Based on OSFI data, total domestic loan growth was relatively soft, growing 0.3% M/M and 7.9% Y/Y in February 2023. The pace of Y/Y growth continued to slow for the ninth consecutive month, with February's figure down 3%-points relative to the peak observed in May 2022. Looking across loan types, commercial loans outperformed the consumer counterpart, growing 1.0% M/M and 15.5% Y/Y. Softness in domestic RESL growth (flat M/M and +5.4% Y/Y) again pressured consumer loan growth in February (+0.8% M/M and +7.8% Y/Y). Among the individual banks, we highlight strong Y/Y performances from BMO and NA (+10.4% and +10.3% Y/Y, respectively), reflecting relative strength in both the RESL and commercial portfolios.
- **Non-Domestic Loan Growth was Better:** Loans denominated in foreign currency, which we use as a proxy for non-domestic exposure, were up 1.3% M/M and up 21.4% Y/Y (excl. BMO given the impact of the BotW acquisition). The result was driven by strength across both consumer (+2.5% M/M and +18.8% Y/Y) and commercial loans (+0.9% M/M and +22.4% Y/Y). Among the banks with significant exposure to P&C businesses outside of Canada, we saw a strong sequential loan growth from CM (+3.1% M/M), with BNS, RY, and TD reporting more modest growth.
- **Deposits Continuing to Seek Higher Yields:** Total deposits across the group (excl. BMO) were up 0.3% M/M and 8.7% Y/Y in February 2023, reflecting growth in the domestic portfolio (+0.8% M/M) and a slight decline in the non-domestic deposits (-0.1% M/M). Among the individual banks, CM outperformed the group with total deposit growth of 1.1% M/M, while TD reported a decline of 0.8% M/M (seen through both the domestic and non-domestic portfolios). Total demand and notice deposits (a proxy for 'core' deposits) in Canada were down a modest 0.1% M/M and 6.8% Y/Y, as the move towards fixed-term deposits continued (up 2.4% M/M and 54.1% Y/Y).

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U.S. Card
Mar Trust: Loss Up & More Than Seasonal; DQs Slightly Higher, Payment Rate Up

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- **Losses up, more than seasonality:** Card trust loss rates at the six largest issuers were 1.58% in March, up 16 bps m/m, compared to the average m/m increase of 9 bps in March. Delinquencies on average were 1.12%, up 2 bps m/m, vs down 10 bps m/m seasonally in March. The pace of credit normalization has increased for prime and super-prime segment.
- Net losses increased at BAC (+30 bps m/m), JPM (+29 bps m/m), C (+12 bps m/m), COF (+10 bps m/m), AXP (+9 bps m/m) and DFS (+9 bps m/m). We note that trusts only have a portion of total loans and don't include newly originated accounts. AXP is the only one of the public companies that reports the monthly numbers before the earnings release (see report linked below) with losses up 30 bps from February.
- **Payment rate:** Payment rates at the largest card issuers were up in March from February in aggregate, more than seasonal increase. Industry participants have expected payment rates to moderate going forward. We note that still high payment rate represents pent-up potential for loan growth, particularly given that spending volumes have stayed resilient, though has shown some signs of moderating.
- **Links to this month's company-specific card data pieces:**

–AXP: March Growth Above CSe; Losses Higher Than Expected

Full Report

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