Equities Research

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20 April 2023
Credit Suisse Global Product Marketing

Estimate / Target Price Changes:

Company Updates:

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ESTIMATE / TARGET PRICE CHANGES:

Consumer Finance | Forecast Change

20 April 2023

Ally Financial Inc. [ALLY.N]

Q1 2023 Earnings Recap

OUTPERFORM

Rating	OUTPERFORM
Price (19-Apr-23, US$)	27.45
Target price (US$)	35.00
52-week price range (US$)	44.04 - 22.29
Market cap(US$ m)	8,257
Enterprise value (US$ m)	8,257

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

- Ally reported core adj EPS of $0.82 (inc $0.10 equity write-down) vs CSe $0.85 and FS cons of $0.86. The result was driven by better NII ($0.07) and lower reserve build ($0.15), partially offset by higher opex of $0.17 and $0.10 write down of certain equity investments. We expect to see one more quarter of margin pressure, and then see growth in net interest income in H2, as ALLY has been very successful raising price on new originations. Having said that, the $0.10 loss in Q1, coupled with lower loan growth and slightly weaker margins lead us to reduce our estimates modestly, but the strong new retail loan yield (10.9%) do give us confidence that ALLY will improve earnings beginning in H2. We lowered our 2023/2024 EPS estimates to $3.60 / $4.90 from $3.80 / $5.05. Our $35 price target represents just over 7x our 2024 estimate. Risks to EPS/ thesis/rating/TP; originations yields, credit, deposit costs.
- Auto originations were $9.5bn which is up 3% q/q and down 18% y/y with used accounted for 64% of originations in 1Q. Ally modestly reduced its originations expectation, to ~$40bn- 43bn down $2-3 bn. Adjusted NIM (ex-core OID) was 3.51% vs last year's 3.93% as Ally's naturally liability sensitive balance sheet leads to NIM compression. However, management noted they are positioned to deliver maintain a margin of 3.5% in 2023, and 4% NIM over the longer term. As mentioned above ALLY has driven yields on new car loans to near 11% and also has added hedges in early 2023.
- Ally lowered 2023 EPS guidance to $3.65 from $4, driven by $0.25 of NIM compression and the $0.10 of equity investments write-down in Q1. Management noted that they expected continued EPS expansion through 2024, though the pace would be dependent on macro conditions & origination strategy. Management maintained full year 2023 NCO range of 1.6-1.8%, even though delinquency rates elevated in 1Q due to smaller benefit from tax refunds and servicing changes.
- **Positives:** Key positives include (a) strong than expected net interest income in 1Q. (b) Strong auto origination yield at 10.9% in Q1 2023 and management expects 10.5% for the full year (higher percentage of new cars). (c) Provision expense came in lower than expected at $446mn vs CSe $512mn in Q1 2023.

Additional details

- **Negatives:** (a) NIM headwinds as ALLY holding more cash in this macro environment, and continued market volatility (b) OPEX came in higher than expected at $1.26bn vs $1.19bn due to the 11% headcount growth YoY in Q1. We expect headcount expense to decelerate in the second half of the year, as management reiterated 6% opex growth expectation.

Credit performance – NCOs in line, DQs lower, although less than seasonal: Management maintained its credit loss guidance for 2023, and noted that losses in Q1 were in line with their forecast. At the same time, employment levels are trending better than the original expectations, but delinquencies improved 32 bps in Q1, somewhat less than seasonal norms. Used vehicle prices are also better than expected at the beginning of the year, and management sounded optimistic that enhanced digital servicing techniques could help improve the roll to default. Retail auto NCOs were 1.68% / $351mm vs last quarter's 1.66% / $347mm and last year's 0.58% / $113mm. Retail auto 60 day+ DQs were 0.80% compared to last quarter's 0.89% and last year's 0.46%. 30+ DQs were 3.24% vs last quarter's 3.56% and last year's 2.02% y/y.

- Overall, we note that earnings have been pressured for several quarters and will likely continue into Q2, but the strong new loan yield will likely start margin improvement in Q3, and continue through 2024. We expect margins to begin to improve in the back half of 2023 and credit to stabilize in early 2024. We believe that the company will work to protect current levels of profitability. We reduced our estimates to reflect some additional margin pressure and higher reserving but believe that profitability should expand as margins recover closer to the company's 4% target. Our $35 price target represents just over 7x our 2024 estimate.

Full Report

Diversified Metals & Mining | Sector Forecast

20 April 2023

Q1-23 Base Metals Mini Preview
Updating our Lundin Mining and Hudbay models ahead of Q1-23 earnings

Research Analysts

Fahad Tariq, CPA, CA

Jessica Xu

- **Copper price action:** Copper prices remain elevated above $4.00/lb, in part due to faster-than-expected growth in China – China's GDP grew 4.5% in Q1-23, above 4.0% consensus. There have also been a number of supply constraints, notably in Peru in Q1-23 due to protests and road blockades – Peru copper exports declined 20% in Jan-Feb, although production increased 5%, as producers built up inventory at mines (including Hudbay's Constancia mine). For our latest commodity price forecasts, refer to our report *Commodities pricing in a constructive global economy other than top pick aluminium*, in which raised our copper price forecasts through 2027, but maintained our long-term price assumption of $3.50/lb. In 2023, we expect copper prices to average $3.98/lb. Copper prices averaged $4.06/lb in Q1-23.

- **Hudbay latest:** Looking past the recent Copper Mountain acquisition, which we view positively – see our report *Scaling the Mountain to see the World* – we expect Q1-23 to be a transition quarter for Hudbay as the company faced protests and roadblocks in Peru, which limited supplies to Constancia (resulting in near-term changes to the mine plan and lower grades) and prevented shipments to the port (resulting in inventory buildup on site and deferred sales). Specifically, we expect Constancia copper grades of 0.32% in Q1-23, before improving in Q2-23 with higher-grade Pampacancha ore. We model Constancia copper grades of 0.38% in 2023. Therefore, Constancia production is expected to be H2-weighted. We understand there is currently ~35kt built up copper inventory at Constancia, vs. ~25kt at the end of Q4-22. In Manitoba, we model Lalor gold grades improving through the year (averaging ~4.5g/t in 2023) and model the New Britannia mill consistently achieving 1,650tpd throughput.

- **Lundin Mining latest:** Looking past the recent Caserones stake acquisition – see our report *Chile copper consolidation with acquisition of Caserones stake* – we expect a relatively muted Q1-23 with Neves-Corvo zinc production expected to improve sequentially through 2023 as ZEP improvement initiatives are completed. Lundin also guided to H2-weighted production at Chapada (mine sequencing and seasonality) and Zinkgruvan (completion of the sequential flotation project in mid-2023). Investors are also keenly waiting for a capex update for Josemaria in H2-23 (engineering is ~40% complete).

- **Model updates and target price revisions:** We revise our Lundin and Hudbay models based on latest management commentary, guidance, mark-to-market commodity prices for Q1-23, and our updated commodity price deck. Our target price for Lundin is revised to C$11.50 (from C$10.00) and our target price for Hudbay is revised to C$9.00 (from C$8.50). We continue to rate Lundin Neutral and Hudbay Outperform. Commodity prices and operations are key risks to our view.

Full Report

Date of Production: 19-Apr-2023 22:35:37 UTC Date of Dissemination: 20-Apr-2023 08:02:16 UTC

EVgo [EVGO.OQ]

Model Update - Pilot J timeline eXtended, Reduce Target Price to $10; Outperform

OUTPERFORM

Rating	OUTPERFORM [V]
Price (18-Apr-23, US$)	6.22
Target price (US$)	(from 12.00) 10.00
52-week price range (US$)	12.02 - 3.67
Market cap(US$ m)	1,663
Enterprise value (US$ m)	1,670

Research Analysts

Maheep Mandloi

Chandni Chellappa

David J. Benjamin

- **Bottom line:** We reduce our DCF-based target price by $2 to $10 as we model lower near-term eXtend revenues while customers await NEVI details and RFPs, lower LCFS credit, and as we now model a slower revenue growth and lower operating margins in 2024 due to interest rates, EV tax credit confusion, and NEVI delays. We reiterate our Outperform rating as we continue to see multiple tailwinds for EV charging growth, potential incentives from distribution of federal infrastructure funds, and a growing asset-light eXtend business to reduce cash needs.
- **Innovation lab takeaways – TSLA supercharger to face the same interoperability challenges:** We had the opportunity to visit EVgo's innovation lab in LA earlier this month where we had an up-close view of the latest EV chargers and testing processes. We noted the challenges with hardware and software interoperability, despite most auto OEMs and charger manufacturers adopting CCS standards. Interoperability is further impacted by continuous software updates on both the sides of the charging cable which warrant continuous testing to iron out hiccups. We believe that the bear thesis grounded on competition from Tesla supercharging stations is overdone as interoperability issues are systemic rather than idiosyncratic. Case in point, the few seconds of delay for a non-Tesla fast charger is due to fail-safe testing initiated at every handshake, which Tesla has avoided on its Supercharger using separate in-house standards.
- **Cash needs:** Management guided 3,400-4,000 stalls operational or under construction exiting 2023, which also includes stalls for PFJ in eXtend business. We estimate capex needs of $132m in 2023 net of tax credits, assuming ~974 new stalls for core charger network. We estimate FCF needs of $(227)m in 2023, which can be funded via cash on hand ($246m exiting 4Q22), potential state grants or federal loans, and tapping into ATM (~$190m available, after $10m issuance in 2022).
- **Estimate changes:** We reduce our 2023/24 EPS to $(0.61)/$(0.53), from $(0.36)/$(0.14) due to slower growth. **Risks:** Competition, changes in incentives and tax credits, supply constraints for EV charger equipment, utility interconnection ability, and end-market EV penetration.

Full Report

Date of Production: 19-Apr-2023 17:22:09 UTC Date of Dissemination: 20-Apr-2023 08:00:56 UTC

F5, Inc. [FFIV.OQ]

F2Q23 Earnings Results Inline, But Outlook Moved Lower

- **Bottom-line:** FFIV reported strong F2Q23 results but lowered the full year guide due to factors we highlighted in detail in our FFIV earnings preview. The company also suspended its software guidance for the year and lowered its full year rev. growth rate to low-to-MSD growth for FY23 but expressed its plans to sustain DD EPS growth by managing costs.
- **Networking Coverage Read-Across:** FFIV called out both Financial Services and Service Provider challenges explicitly (significant customer verticals for the networking vendor base), as well as suggesting that demand pressure was broad based across all industries and geographies, making FFIV's challenges likely shared by other networking vendors. Further, we believe it is likely that large deal delays will affect most of the networking and application infra. sector companies in our coverage, highlighting that the current slowdown is not FFIV specific. JNPR reports next and we expect a more constructive report/outlook vs. FFIV but again challenged by backlog drawdown/margins.
- **Software Growth Well Below Expectations, Systems Better, But Outlook Remains Challenged:** FFIV reported software growth of -13% y/y versus our model of 15%, a material miss and a sticking point on the stock given buy side's bull case on the name is software transition/ramp, which has now been reset twice YTD FY23. We now model software rev. decline in FY23 of -9%. For Systems they reported +43% y/y versus our model of +19.5%, a material beat, but did call out weakness in F2H23 as major deals have been delayed/pushed out. We now expect FY23 growth of 14.5% (vs 16.4% prior).
- **Cost Cuts to Support Better OMs Into FY24, Preserving DD EPS Growth Trajectory:** FFIV announced cost cutting efforts through a **(1)** 9% workforce reduction (620 employees) which is projected to result in $130M in annualized savings (will cost $45M in severance expenses in FY23), **(2)** reduce/eliminate their footprint, and **(3)** minimize travel and discretionary projects while also shrinking the FY23 bonus pool. These cuts are likely to translate into a ~300bps OM lift into FY24 (our model), allowing FFIV to maintain DD EPS growth in FY23 and deliver DD EPS growth in FY24.
- **Valuation—Reiterate Neutral, Lower Target Price to $155 (From $166):** We value FFIV based on a P/FY2 EPS multiple of 12.5x multiplied by our FY24 EPS estimate of $12.44 (from $13.24). Risks include SDN, DevOps transitions, & security initiatives traction.

NEUTRAL

Rating	NEUTRAL
Price (19-Apr-23, US$)	137.05
Target price (US$) (from 166.00)	155.00
52-week price range (US$)	203.22 - 134.25
Market cap(US$ m)	7,548
Enterprise value (US$ m)	6,837

Target price is for 12 months.

Research Analysts

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Additional Information

Published Yesterday:

Networking Equipment: FFIV/JNPR Previews and Sector Channel Checks Ahead of C1Q23 Earnings Cycle

Ahead of C1Q23 earnings results, we conducted our quarterly channel checks with 20+ C-suite/IT executives across the networking and data center sectors, and come away with the following takeaways and preview FFIV/JNPR before FFIV's results at the market close on Wednesday (4/19/2023).

General IT Spending – There Is a Clear Difference In the Way Executives Are Describing Recent Customer Activity in 1Q23 Versus 4Q22/3Q22: For networking equipment vendors, we are not hearing about issues in the current quarter, but are hearing explicit cautiousness around the rest of 2023, largely driven by economic uncertainty. To quantify the impact, executives have stated that customers have expressed interest to spend budgeted IT dollars, but some networking vendors believe this is subject to change as economic forces take hold. Customers are not expressing that their IT budgets are getting cut yet, per se, but are anticipating them to be cut, leading to delays in decision making, causing industry constituents to believe that spend is likely to move lower rather than remain at budgeted levels for 2023 versus year-end 2022. From our data center coverage, we are hearing about very strong retail (250kW-1MW; small-medium sized enterprise deployments) colocation leasing activity (with strong pricing/renewals all around, suggesting demand durability) driven, in part, by customers finally receiving their long overdue networking and IT equipment, then deploying right into production environments; this is likely why we are hearing about a significant wave of "on-premise" repatriations from cloud, but we are somewhat skeptical about the ultimate durability of this trend. In wholesale (1-10MW; large enterprise deployments), activity has slowed down materially based on the majority of channel checks (we believe this is being caused by financial services customers specifically as they are consistent wholesale customers in tier 1 markets). On the hyperscale side (10MW-100MW+; very large cloud and AI type data center workloads), activity remains very robust, albeit at less intense levels in 1Q23 versus 2H22 (the record high leasing levels are finally and unsurprisingly moderating), but still described as "clearly strong" by data center executives working closely with hyperscalers.

But This Quarter Is Likely Not That Straightforward... This Is Definitely a "Mixed Bag" Type of Quarter in Our View: We heard very contradictory comments from executives in the same types of businesses this quarter, which has not happened since the early days of the pandemic, with about half of executives calling for demand "definitely breaking down" into 2023 and the other half suggesting its business as usual with no impact, reiterating "hyperscalers need us." We would clarify the demand feedback by noting that not all these executives sell the same products and services, but they do, however, sell to comparable customers and in similar industries. Net-net, we are more cautious going into this quarter, but not on reported results which we expect to be in-line with corporate guidance in 1Q23. That said, we do not see a scenario where updated guidance for the balance of 2023 comes in stronger than already issued levels (there are some exceptions, but for the most part it would surprise us if somehow companies began beating-raising off of 1Q23 results/ guidance). We also believe the level of caution that coverage companies will account for in their updated 2023 guidance will be more pronounced in 1Q23 reports versus 4Q22 reports just three months prior. Across our coverage networking coverage, CSCO (Outperform rated), ANET (Neutral rated), and EQIX (Neutral rated) likely see demand dynamics intact, whereas we see weakening outlooks for FFIV (Neutral rated), JNPR (Underperform rated), and DLR (Underperform rated).

Through Our Checks, the Weakness Is Coming From Non-Tech Enterprise Customers: Recent Gartner data reinforces the channel check conversations we are having, as 2023 enterprise IT spending is forecasted to decelerate to 6.9% from 8.3% in 2022, with only two of the 12 sectors forecasted to see accelerated IT spend. The mix of non-tech customer enterprise business, which in FFIV's case is ~68% of total revenues ex-service provider and government customers, is what we believe to be the driver of weakness in checks, not the service provider (SP) part which has been suspected by some speculative industry checks that are seeing deteriorating demand (note the SP category includes telco, cable, content delivery networks, cloud SPs, etc.). In JNPR's case, the non-tech customer mix is ~40% of revenues (~33% ex-government customer mix), much lower than FFIV's mix exposure, likely making our aforementioned read-throughs less impactful to JNPR's results compared to FFIV's.

To Be Clear, We Do Not Expect FFIV/JNPR Near-Term Results to Be the Issue: We do not suspect that near-term quarterly reports are at risk (C1Q23 and C2Q23 results are likely going to be strong as networking equipment companies ship orders from backlogs), but we do expect the remaining 2023 demand dynamics to be the key pressure points for both FFIV/JNPR. In our view, the combination of sharply decreasing backlogs and slowing medium-term demand trends will functionally limit investors sponsorship of the stocks, so we would conclude that this quarterly setup is very difficult for both networking companies. Additionally, we believe CSCO may have similar mixed end market dynamics, but we need to assess near-term reports to better conclude what CSCO's setup may ultimately be (same applies to ANET).

FFIV (Neutral Rated, $166 Target Price, Currently Trading at ~11x FY2 Consensus EPS)
F2Q23 Preview - The Results Setup Likely Difficult for FFIV Bulls: Even though FY23 consensus estimates have moved to the low-end of guidance per Figure 1 below (our model is unchanged since our last reported result), the buy-side is watching two factors very closely: (1) Systems revenue backlog levels following shipments and whether there is continued incremental demand to backfill the backlog; and (2) reiterated software revenue growth which has been guided to grow 15-20% in FY23 (a deceleration versus ~33% in FY22). For factor 1, we believe the majority of post-covid catch-up orders have now been reflected into FFIV's backlog and metrics, creating a challenge to positively surprise investors in reported results for F2Q23 (with the only curve-ball upside case coming from cloud or telecom/cable SP customers). On factor 2 (software growth), we see a plausible scenario in which FFIV potentially lowers guidance to below 15% in FY23 for the segment, which at this stage appears to be likely in the context of our aforementioned channel checks. We would also add that its software offerings are indexed to sophisticated IT enterprise spenders with a healthy indexation to financial services customers (for instance, Shape Security had a financials mix), making the setup even more challenging. We do not see any issues with gross/operating margins or EPS, but when it comes to the stock's ability "to work," reported

metrics need to suggest that the company's medium-term visibility is strong and software is sustaining its guided growth rate; both points appear to be a challenge in the context of our recent channel check findings. For these reasons, we are cautiously Neutral on the name, also pointing out that the issued guidance for FY23 is by no means conservative.

JNPR (Underperform Rated, $29 Target Price, Currently Trading at ~13x FY2 Consensus EPS) 1Q23 Preview - Better Positioned Than FFIV, But Does Not Mean the Setup Is Easier Considering Profitability Factors: JNPR reports next week on Tuesday (4/25/2023). As we pointed out earlier, JNPR has less exposure to enterprises that are likely to see some changes in demand dynamics, but we do see a scenario where the key factor that has kept us negative on JNPR - profitability/operating leverage - is a continued overhang on the stock. Our thesis is simple: the company is growing its relevance to the enterprise customer base, but is achieving this by being very competitive on pricing, limiting the degree of operating leverage while growing at HSD. We do not see a scenario where pricing or profitability improves in the medium-term for JNPR, especially from enterprise customers (the key drivers of JNPR's WLAN and campus switching business's growth). As IT budgets continue to be pressured (re: Gartner IT Spend and our channel check comments) we only see more resistance appended on JNPR's goal of trying to improve its pricing position. Despite the positive business dynamics that the company has been reporting via Mist and its AI capabilities, we continue to see the operating leverage dynamics as a sticking point for investors, making us cautious on the name. Additionally, we do not see a scenario in which JNPR's backlog levels can grow as they ship products, which is the same pain point dynamic as FFIV (re: FFIV factor 1). JNPR Credit Suisse versus Consensus Estimates highlighted in Figure 2 below show we are largely in-line with consensus forecasts.

Full Report

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Canadian Infrastructure
Pondering the Prints into the Utilities Sub-Sector Results Season; Prefer AQN and ALA

Research Analysts

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On May 16th and 17th, Credit Suisse will host the 2023 Renewables and Utilities Conference in New York with currently ~40 companies across the ecosystem for a variety of meetings and panel discussions. Please contact us or your sales representative for details along with seeing Credit Suisse Renewables & Utilities Conference.

- **A Rate Rollercoaster:** Recently, we witnessed rather notable shifts in the term structure of interest rates having a pronounced impact on valuation more broadly – albeit even more so with the Utilities sector (*Infrastructure Action: Considering the Cross-Border Rate Realities after the BoC and Payrolls* and *Stub Seeker: Talking about Term Structure and the Re-visiting the Rate Reality*). With rates expectations moving downward, multiple expansion is being witnessed across the sector as partly evidenced with an indexed performance view of the three major Canadian Infrastructure sub-sectors on a year-to-date basis with the most rate sensitive Utilities sub-sector leading the threesome.

- **Selected Stocks**: Within the Canadian utilities sector, we carry many Neutral ratings with the exception of two of three stocks starting with the letter “A” being **Algonquin Power and Utilities Corp. (AQN)** and **AltaGas Ltd. (ALA)** carrying Outperform ratings. With the recent official AQN-AEP Kentucky deal termination, we focus on the catalysts associated with AQN’s future divestitures and potential re-rating in the months and quarters ahead (*Termination Talk and Revisiting the Re-Rating by Reiterating the Outperform Rating*). For ALA, the energy infrastructure angle is the most important, in our view, and, therefore, typically addressed in that work in more detail. On quick hits, include: **(a) ACO/CU** – percolating growth, rebasing, re-rating and defense spending; **(b) BIP** – monetizations and deployments; **(c) EMA** – the balance sheet and Nova Scotia; **(d) FTS** – the next wave of growth; and, **(e) H** – growth upside with defense.

Full Report

Date of Production: 19-Apr-2023 21:59:30 UTC Date of Dissemination: 20-Apr-2023 04:01:51 UTC

Synchrony Financial [SYF.N]

1Q Miss On Prov But RSA Better; Better Growth Guidance; Credit Normalizing As Expected

OUTPERFORM

Rating	OUTPERFORM
Price (19-Apr-23, US$)	30.79
Target price (US$)	38.00
52-week price range (US$)	40.48 - 27.62
Market cap(US$ m)	13,192
Enterprise value (US$ m)	(1,346)

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

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- **SYF reported 1Q EPS of $1.35, below CSe of $1.66 and cons of $1.42.** The miss vs our estimate was primarily due to higher-than-expected provision ($0.38 impact), due to higher reserve build, even with losses better/lower than our expectation. NII was lower than expected ($0.03 impact), due to lower NIM which offset slightly better loan growth. Meanwhile, RSA was lower (better) than expected ($0.08 benefit). Credit continues to normalize as expected. SYF reiterated most elements of its 2023 guidance, though raised loan growth guidance (we had previously mentioned loan growth would likely be above prior guidance), given better-than-expected purchase volume and slightly faster-than-expected payment rate normalization. Overall, we view the quarter as **moderately positive**.
- **Bottom Line:** Our 2023/2024 EPS estimates are $5.05/$6.05 (old: $5.33/$6.01). Our target price is $38, 6x our 2024 EPS estimates. Reiterate Outperform rating. Risks to our thesis include higher-than-expected provision and lower-than-expected loan growth.
- **Positives. 1)** RSA of $917 mil came in below CSe of $962 mil (positive for earnings). **2)** Purchase volume and loan growth were +~1 ppt vs CSe. SYF increased loan growth guidance for 2023 from 8%-10% to above 10%+.
- **Negatives. 1)** Provision of $1.29 Bn came in higher than CSe of $1.07 Bn, driven by higher reserve rate, though losses were lower than expected. **2)** NII of $4.05 Bn came in lower than CSe of $4.07 Bn, driven by lower NIM, though loan growth was better.

Full Report

Date of Production: 19-Apr-2023 21:15:47 UTC Date of Dissemination: 19-Apr-2023 21:18:51 UTC

Las Vegas Sands Corp. [LVS.N]
Market Share Gains and Positive Outlook

OUTPERFORM

Rating	OUTPERFORM [V]
Price (19-Apr-23, US$)	59.36
Target price (US$)	(from 62.00) 67.00
52-week price range (US$)	60.80 - 30.14
Market cap(US$ m)	45,367
Enterprise value (US$ m)	53,242

Research Analysts

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1Q Recap: 1Q hold-Adj property EBITDA of $797m vs street $648m. Both Macau and Singapore performed better than expected and commentary from mgmt. suggest further improvement as hotel availability and transportation constraints ease.

Macau: Hold-Adj EBITDA in Macau was better than expected at $385m vs Street $250m. In some respects, street estimates were stale given fast-moving recovery, but the quarter was still strong. LVS highlighted a lot of noise in the recovery of Macau since its opening with material difference in performance throughout the quarter, suggesting upside in 2Q in our view. LVS emphasized that Macau is attracting a lot of international demand, particularly, a strong international Asian high-end premium customer, without negative impact to Singapore. There are two constraints that are likely improving going forward: (1) transportation, as airlift and ferry services are still a fraction of 2019 levels and (2) hotel availability, due to a lack of labor. LVS noted hotel operating capacity for 1Q was 7.7k rooms, expects to reach 10.7k rooms in 2Q, with full-operating capability of 12k rooms by 3Q. This will come with higher costs, but presumably higher gaming revenues as well. Importantly, LVS generated ~27% market share in 1Q (an improvement vs 1Q19), with more rooms coming online this creates a compelling setup and should drive estimates higher.

Singapore: Airport monthly passenger volume reached 78% of ‘19 levels (vs 72% at year end ‘22). We think about three buckets as it pertains to MBS EBITDA, split somewhat evenly (local Singapore players, Indonesia/Malaysia/Thailand players, China/HK players), with the China bucket a ~$400/$500m drag for the time being. Based on the run-rate, we think this suggests material upside to pre-covid levels, prior to ROI investments (e.g., MBS suites, Tower 2).

Development: At MBS there will be 300-500 rooms out per quarter, completion Dec ’23, which could cause some volatility, with ~$600m more capex remaining. In total MBS will end up with 350m more suites, which should help drive high margin premium mass play. Recall, Tower 2 is delayed (backlog from COVID). We expect a late ‘23 groundbreaking, and ’27 opening. LVS noted they will likely spend materially more than the initial $3.3bn budget due to inflation, we think suggesting ~$3bn remaining.

Valuation: We forecast 23/24 EBITDA of $3.46b/$4.97b (prev. $2.27b/$4.63b). We raise our target price of $67 (prev. $62) due to a strong Macau recovery. Our target price is based on 12.5x 2024 EBITDA of $4.97b.

Risks: Sensitivity to the Chinese economy & demographic trends, and COVID-19.

Full Report

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CREDIT SUISSE

Financials | Decrease Target Price

19 April 2023

Citizens Financial Group, Inc. [CFG.N]
Circling back… estimate reduction primarily driven by the diminished NII outlook; reduced free capital expectations takes our TP to $35

NEUTRAL

Rating	NEUTRAL
Price (19-Apr-23, US$)	30.50
Target price (US$)	(from 44.00) 35.00
52-week price range (US$)	44.46 - 28.62
Market cap(US$ m)	14,771
Enterprise value (US$ m)	14,771

Target price is for 12 months.

Research Analysts

Susan Roth Katzke

Jill Shea

This morning Citizens reported first quarter GAAP earnings of $1.00 per share; management put "underlying" EPS at $1.10 which compared to our $1.07 GAAP /$1.12 operating EPS estimates and the FactSet consensus of $1.12. **Relative to our forecast…** revenue/NII was shy of our forecast; credit costs were in line (NCOs higher/less LLR build than our forecast). Results translated to an ROTE of 15.8% on quarter end CET1 of 10.0%. **Looking forward…** management is lowering its full year 2023 revenue outlook and modestly lifting its loss rate expectation, none of which should be all that surprising at this point. **Reducing estimates…** factoring in our revised NII forecast--the biggest driver of our downward earnings revision (less loan growth/higher funding costs taking their toll), somewhat higher credit costs (this is the cost of macro deterioration) and a slower pace of share buybacks, we're reducing our 2023 and 2024 operating estimates to $4.40 and $4.80 per share (prior: $5.00 and $5.10), respectively. Factoring in both our estimate revisions and the assumption of less free capital generation going forward (reflective of heightened regulatory risk), we're reducing our target price to $35 (from $44). **Risk (+/-) to the achievability of our estimates and target price** ties most closely to the macro and market backdrop (i.e., the level of interest rates, business and capital markets activity and credit quality migration), regulatory dynamics (CCAR, the outcome of the Fed's holistic capital review), the intensity of competition, and the successful integration of recent acquisitions.

- **For a snapshot of 1Q fundamentals, refer to this morning's note:** CFG: 1Q23 First Impressions
- **Our target price of $35** is derived by applying our weighted average valuation methodology using a 10% weight on our blue sky scenario of $63, a 50% weight on our DCF-derived base case scenario of $57, and a 40% weight on our grey sky scenario of $22; this target price translates to 8.0x our 2023 eps estimates and ~1.1x forecast year end 2023 tangible book value per share.

Full Report

Date of Production: 20-Apr-2023 00:10:06 UTC Date of Dissemination: 20-Apr-2023 00:11:19 UTC

FTC Solar Inc [FTCI.OQ]

Model Update; Reduce TP by $1 to $4; Reiterate Outperform

OUTPERFORM

Rating	OUTPERFORM [V]
Price (18-Apr-23, US$)	2.60
Target price (US$)	(from 5.00) 4.00
52-week price range (US$)	5.63 - 1.84
Market cap(US$ m)	276
Enterprise value (US$ m)	262

Research Analysts

Maheep Mandloi

Chandni Chellappa

David J. Benjamin

- **Bottom line**: We reduce our DCF based TP by $1 to $4 as we now assume a slower gross margin ramp in 2023. We retain our Outperform rating as the stock is still attractive vs solar tracker peers and benefits the most when US solar module imports improve later this year. The stock trades at 10x our 2024 EBITDA est, below peers trading at 12.5x/19.3x cons 2024 EBITDA.
- **Model update:** We update our model ahead of Q1 earnings to account for reduced margins amid lower revenue runrate through the year. Management previously guided on 1Q22 call that GM% are likely 10-15% for $100m/qtr revenues and 12-18% for $150m/qtr revenue runrate. In comparison we estimate the company to hit ~$93m revenues in 4Q23 as UFLPA resolution drives solar module shipment and hence tracker revenue growth.
- **Reports of damaged solar farm**: In their April investor deck WEC reported damage to their Samson I solar farm due to a high wind storm in Texas (east of Dallas). Solar trackers are expected to stow panels during periods of high winds to prevent damage to the solar system. WEC acquired 80% interest in the Samson I solar farm in January 2023, which was developed by Invenergy, a company FTCI lists as a customer in their presentations. As per FTCI, there have been no customer claims on any of their projects in the area, likely implying that the damage was likely due to weather activity above rated design. FTC Solar's Voyager trackers are rated to wind gusts of up to 120 mph, which corresponds to an EF-2 tornado; however, no tornados in the Texas area reached EF-2 level.
- **Key topics for Q1 earnings call**: Impact of storms on customer orders, Progress on non-UFLPA backlog and orders, Long-term gross margin and EBITDA margin targets.
- **Valuation and estimate changes:** We reduce our 2023/24 EPS to $(0.21)/$0.22, from $(0.09)/$0.65, as we reduce GM% growth ramp. Risks: continued module availability issues, weaker demand, competition, international expansion, renewable/trade policies.

Full Report

Date of Production: 19-Apr-2023 13:23:10 UTC Date of Dissemination: 19-Apr-2023 20:00:01 UTC

COMPANY UPDATES:

Independent Power Producers & Energy Traders | Pre Results Comment

20 April 2023

Array Technologies Inc [ARRY.OQ]
Q1 Preview, Model Update

OUTPERFORM

Rating	OUTPERFORM [V]
Price (18-Apr-23, US$)	21.46
Target price (US$)	24.00
52-week price range (US$)	24.04 - 6.20
Market cap(US$ m)	3,237
Enterprise value (US$ m)	3,751

Research Analysts

Maheep Mandloi

Chandni Chellappa

David J. Benjamin

- **Bottom Line**: We expect Q1 revenues in line with prior guidance (-20% q/q) and no changes to 2023 guidance either which is risk adjusted for current trade policies. We reduce our 2023 US utility demand forecast due to delays in UFLPA resolution (25 GW, from prior 26 GW, vs WoodMac/BNEF 19-24 GW). **Key questions for Q1 call:** Module availability (expect limited impact from potential anti-circumvention tariff freeze repeal), upside from IRA (awaiting treasury guidelines, we est worth ~$3-6/sh), impact of high interest rates on utility solar demand (we expect limited impact due to supply constraints).

- **Q1 Preview**: We estimate Q1 rev/GM%/adj. EBITDA of $321m/18%/$26m vs cons $325m/19%/$31m, and in line with company guidance of 20% q/q revenue decline. We estimate FCF $(12)m driven by investment in working capital ahead of Q2/3 deliveries, which are the seasonal high point. We estimate annual FCF of $112m vs guidance of >$100m.

- **Q2 and 2023 expectations**: We estimate Q2 revenues/GM% $521m/19% vs cons $501m/20%. We see limited risk to 2023 guidance as it excludes any upside from UFLPA-related accelerated solar module deliveries. Raw material steel prices are trending up again, +49% YTD, however, with their current pass-through contract structures, we don't expect any impact on margins. Our 2023 revenue estimate of $1.98b is unchanged and higher than the street estimate of $1.9b as we estimate a quicker resolution of UFLPA, leading to free flow of modules into the US in Q2.

- **Accounting firm switch**: On 3/30 ARRY dismissed accounting firm BDO and hired Deloitte & Touche the following week. Recall ARRY faced 10K delays last two years due to accounting issues.

- **Valuation and estimate changes**: We reiterate our $24 target price and Outperform rating owing to faster return to legacy margins vs peers and international expansion strategy. Our 2023/24 EPS estimates are unchanged. **Risks**: Competition from low-cost suppliers, impact of changes in interest rates on end demand, impact of renewable and trade policy, and supply chain challenges.

Full Report

Date of Production: 19-Apr-2023 20:14:29 UTC Date of Dissemination: 20-Apr-2023 08:01:37 UTC

SL Green Realty Corp. [SLG.N]
1Q23 In-Line; Decent Operating Quarter; Still A Lot To Execute On

NEUTRAL

Rating	NEUTRAL
Price (19-Apr-23, US$)	25.97
Target price (US$)	36.00
52-week price range (US$)	75.62 - 19.96
Market cap(US$ m)	1,672
Enterprise value (US$ m)	7,058

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: Reported 1Q23 FFO/sh of $1.53 is net of ~$0.10 of reserves on a debt and preferred equity (DPE) investment and also includes ~$0.29 of holdover rent, interest and reimbursement of attorneys' fees collected by the 2 Herald Square JV following legal proceedings vs. the former tenant. Net of these one-time items, 1Q23 FFO/sh of $1.34 was in-line with CS. Comparison vs consensus at $1.41 is difficult given the one-time items. Investors will likely be relieved to see a generally quiet quarter with nothing overly concerning. Operating metrics were solid (i.e., leasing volume, mark to market) although there was little investment and financing activity. While the stock has rallied off the lows hit during the SIVB/SBNY banking collapse (and subsequent concern about a tightening in the CRE lending market), SLG stock is still down ~24% YTD. At just ~8.7x P/AFFO (vs. 5-year average of ~16.6x), valuation looks attractive, but further stock appreciation will be dependent on the ability to grow occupancy by leasing at attractive economics and execution of asset sales to de-lever the balance sheet.
- **Operating Metrics Generally Solid**: 1) ~505k sq ft of leasing in 1Q23 exceeded the soft ~196k sq ft in 4Q22 with SLG on-track to hit the ~1.7M sq ft target for FY23; 2) As expected, same store ("SS") occupancy fell to 90.2% in 1Q23 (from 91.2% in 4Q22) with management reaffirming an expectation of 92.4% occupancy by 12/31; 3) Mark to market on renewals rose q/q to 5.3% in 1Q23 vs -4.7% in 4Q22); 4) SS cash NOI ex termination fees rose to 5.3% y/y in 1Q23 vs 3.3% y/y in 4Q22; 5) Leasing economics were solid although the average lease term fell to 6.3 years in 1Q23 (from 8.0 in 4Q22). Tenant improvement allowances per sq ft per lease year fell to ~$6.78 in 1Q23 (from ~$7.45 in 4Q22) as did months of free rent per lease year (~0.76 in 1Q23 from ~0.93 in 4Q22).
- **Key Questions**: 1) Plans to manage variable rate debt exposure as swaps begin to expire over the course of the next year, 2) Progress on asset sales (7 Dey Street/185 Broadway, 245 Park Avenue – JV Interest, 750 Third Avenue, One Vanderbilt Avenue – JV Interest, 110 Greene Street, 719 Seventh Avenue), 3) Update on casino license bid and potential office-to-resi conversion initiatives, 4) Leasing outlook given 2023 occupancy targets, 5) potential earnings risk given rising non-accruals in the DPE book. Earnings call April 20th, 2 PM EST; 844-543-0451

Full Report

Date of Production: 20-Apr-2023 02:18:29 UTC Date of Dissemination: 20-Apr-2023 02:19:38 UTC

Teledyne Technologies Inc. [TDY.N]
1Q-23 Preview: A Good Stock to Own Right Now; We Expect EPS in line with Consensus, and Typically Conservative Q2 Guidance

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	436.09
Target price (US$)	503.00
52-week price range (US$)	488.63 - 331.10
Market cap(US$ m)	20,497
Enterprise value (US$ m)	22,798

Target price is for 12 months.

Research Analysts

Guy Hardwick

- **Key Takeaways**: TDY is due to report before the market open on April 26th. We expect Q1-23 EPS of $4.43, in line with consensus, and we expect TDY to give Q2 EPS guidance of ~$4.65 at the mid-point (2c below consensus). TDY has guided next quarter's EPS below the street for the past 4 quarters, and subsequently reported results that exceeded both guidance and prior consensus. For FY23, with component headwinds receding steadily, we believe TDY should be able to deliver its backlog ($3B+), while managing price/cost as neutral, with the additional tailwind from lower broker buys. CS FY23e adj. EPS of $19.33 remains above consensus of $19.13. We expect TDY to re-iterate its FY23 EPS guidance of $19.00-$19.20.
- **Investment Overview:** TDY revenues by end market are 67% growth, defensive or long cycle, including 25% Government & Defense, making it the most defensive name in our coverage. TDY has a highly relevant defense portfolio for the current geopolitical environment, including drones, components for electronic warfare, including on programs of record (F-35, Columbia class). TDY's acquisition of FLIR created an imaging business that is unique in terms of range of spectrum and technologies; we expect the benefits of combining the two R&D units to drive incremental revenue growth in '23 and beyond.
- **Catalysts**: We are seeing greater interest in TDY shares from a range of investors; a solid Q1-23 report, which we expect, and re-iteration of FY23 guidance, we believe, will be supportive of TDY shares, with risks to earnings in our view skewed to the upside.
- **Valuation & Risks**: Our unchanged $503 TP is based on 26x FY23 EPS. The multiple is derived from a fundamental P/E model for growth companies: Our 26x multiple is 1.37 relative to the SPX '23 multiple and is a discount to TDY's 5-year historical relative of 1.48. Risks include greater than expected labor and other cost inflation, component shortages, and delays in defense contracts.

Full Report

Date of Production: 19-Apr-2023 20:32:07 UTC Date of Dissemination: 19-Apr-2023 20:35:29 UTC

Elevance Health [ELV.N]
Q&A Our Way: On Track for EPS & MLR Guidance; ELV Expecting Continued Margin Improvement As Year Progresses

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	483.08
Target price (US$)	589.00
52-week price range (US$)	546.77 - 444.32
Market cap(US$ m)	114,619
Enterprise value (US$ m)	127,097

Target price is for 12 months.

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Anastasia Parafestas

Carlos Penikis, CFA

- **Quarterly Results In Line with Expectations and On Target for FY Guidance:** ELV expressed confidence in achieving full year MLR & EPS guidance, as well as long-term margin targets for the benefits business. Repricing of the commercial was assumed in guidance and embedded in MLR expectations, and 1Q23 MLR overall came in-line with expectations. The commercial margin improvement in MLR was consistent with management's expectations for the trajectory over a long-term basis. ELV pointed out that the SG&A ratio was flat for the quarter due to investments to enhance the consumer experience both in the benefits business and Carelon. Otherwise, the revenue outperformance and the normal fixed cost leverage would have driven upside to reported margins. In fact, margins would have been closer to the higher end of the guided range had the investments not been made, rather than the lower end that was reported.
- **MA Supplemental Benefits:** Medicare margins did not improve to the extent that the company expected as the growth in MA enrollment was attributed to individuals buying plans that favored higher supplemental benefits. Management expressed the view that its supplemental benefit package was a primary driver behind its share gains in MA. The company also expressed the view that utilization may be higher earlier in the year as these new enrollees get access to these new benefits for the first time. The company says MA margin improvement could occur as a result as the year progresses.
- **Decline in DCPs Related to Covid Roll-Off:** ELV indicated the decline in days claims payable (DCPs) Y/Y was related to the lower Covid volume. Covid claims take longer to process as hospitals need to provide more documentation and paper to demonstrate Covid, particularly when it is a secondary diagnosis, and to receive possible bonus payments. ELV said auto-adjudication processes 89-91% of claims, and faster cycle times are correlated with more auto-adjudicated claims. The reserve strength was also highlighted by comparing reserve balance growth of 10.1% vs premiums growth of 9.4% (ex-passthrough payments).
- **Raising Estimates:** We are raising our 2023/2024 EPS estimates to $32.80/36.90 from $32.70/36.85, respectively. We are maintaining our $589 target price based on 16x our 2024 EPS estimate. Risks include higher-than-expected utilization, lower-than-expected enrollment, and changes in the regulatory environment.

Full Report

Date of Production: 19-Apr-2023 22:23:13 UTC Date of Dissemination: 19-Apr-2023 22:26:28 UTC

CREDIT SUISSE

International Business Machines [IBM.N]
1Q23 Review; Solid Guide Supported By Global Footprint & Software

OUTPERFORM

Rating	OUTPERFORM
Price (19-Apr-23, US$)	126.32
Target price (US$)	162.00
52-week price range (US$)	150.57 - 117.57
Market cap(US$ m)	114,586
Enterprise value (US$ m)	153,933

Target price is for 12 months.

Research Analysts

Shannon Cross

Ashley Ellis

IBM (IBM, OP) reported solid 1Q23 results with revenue just below our estimate but better non-GAAP EPS due to non-operating items (GM outperformance was offset by higher opex). Total revenue was $14.25B (flat y/y, up 4% constant currency) and non-GAAP EPS was $1.36, versus our estimates of $14.46B and $1.24 and the Street at $14.35B and $1.26, respectively. Key takeaways include:

- **Minimally Updated Guidance:** IBM now expects 2023 revenue to grow 3% to 5% versus mid-single digits prior, which is notably better than the outlook from others in our coverage. We believe IBM's solid results are driven by the company's global footprint, strong software capabilities and focus on more mission critical projects, e.g., mainframes, security, productivity workflows. On a CC basis, Americas was +1%, EMEA +8% and APAC +7%.

- **Consulting & Software Mostly As Expected:** Software revenue was in-line with our estimate and Consulting was 1% below ours. Importantly, 2023 segment guidance is also in-line with our expectations including slightly slower Consulting revenue growth (now +6% to 8% versus ~9% prior, we had moved to +7%) and mid-single-digit growth in Software (no change, we were at +6%). Some customers are pushing out discretionary projects but initiatives targeting productivity and cost savings remain key areas of investment. After rolling through 1Q results and essentially maintaining our estimates for the rest of the year, our 2023/2024 non-GAAP EPS ests go to $9.48/$10.28 versus $9.41/$10.31 prior.

- **Pricing & Efficiencies To Offset Continued Spending:** GM beat our estimate by 173 bps with benefit from pricing, change in useful lives and investments made in recent years. PTI margin is still expected to expand ~50 bps in 2023, including ~$300M of restructuring costs in 1H and continued investment into the business. Management pointed to several technology-related investments (e.g., transitioning a legacy data center to a hybrid cloud environment), which are driving efficiencies and in total the company is targeting ~$2 billion of gross run rate savings by the end of 2024, a third of which we expect to be reinvested.

- **Reiterate Outperform and $162 TP:** Risks include currency, macroeconomic uncertainty, cloud competition and integration of M&A.

Full Report

Date of Production: 20-Apr-2023 01:44:26 UTC Date of Dissemination: 20-Apr-2023 01:45:42 UTC

Brandywine Realty Trust [BDN.N]
1Q23 In-Line; 2023 Guidance Reaffirmed; JV Development Outlook Remains An Overhang

NEUTRAL

Rating	NEUTRAL
Price (19-Apr-23, US$)	4.42
Target price (US$)	6.00
52-week price range (US$)	12.92 - 4.05
Market cap(US$ m)	759
Enterprise value (US$ m)	2,796

Target price is for 12 months.

Research Analysts

Tayo Okusanya, II, CFA, CPA

- **Overall Thoughts**: 1Q23 FFO/sh of $0.29 was in-line with CS/consensus. FY23 FFO/sh guidance of $1.12-$1.20 ($1.16 midpoint) was reaffirmed, CS/consensus are currently at $1.16/$1.15. It was a generally quiet quarter with decent operating metrics (i.e., falling TI/LC costs but solid but declining mark-to-market). While we have had a favorable view of BDN's development pipeline, the need for good news on the development leasing front is becoming of greater emphasis for investors. Despite solid overall leasing, there was no development leasing in 1Q23 after limited totals in 4Q22 (only ~22k sq ft). With 2 deliveries expected in 3Q23 (3025 JFK Boulevard & One Uptown – Office), development lease-up will likely be a key topic of the earnings call. Although recent financing activities have alleviated some pressure, BDN's balance sheet remains a sore spot. There remains ~$317M of unconsolidated (i.e. joint venture) debt at BDN's share maturing before 5/24 that will likely require refinancing in a tough macro backdrop & ~$304M of pro-rata JV floating debt exposed to higher interest rates. That said, the stock has sold off significantly (down ~32.4% YTD) and screens attractive on a valuation basis (trading at ~5.4x P/FFO vs 5-year average of ~13.2x) creating a potentially attractive entry point if management can execute on catalysts such as development leasing and a de-levering of the balance sheet.
- **Remain Cautious On BDN's Dividend Outlook**: BDN continues to guide to a 95%-105% cash available for distribution payout ratio for FY23, and could increase further in the event of further earnings pressure from decelerating fundamentals and/or rising interest rates. Another factor keeping us cautious on the dividend is BDN's high dividend yield (~18.3% vs the office REIT average of ~6.5%). A dividend cut represents the most attractive source of capital for BDN to fund capex and development, especially if asset sales fail to materialize (the target for FY23 is $100M-$125M with no sales in 1Q23).
- **Key Questions**: 1) Dividend outlook; 2) Thoughts on the development leasing outlook; 3) Insights into Philadelphia life sciences market given slowing VC funding in biotech. Earnings Call April 20th 9 AM EST. 844-543-0451.

Full Report

Date of Production: 20-Apr-2023 01:32:24 UTC Date of Dissemination: 20-Apr-2023 01:51:18 UTC

DuPont de Nemours, Inc. [DD.N]
Recent Rogers Investor Day Highlights Continuing Opportunities for DuPont

OUTPERFORM

Rating	OUTPERFORM
Price (18-Apr-23, US$)	71.63
Target price (US$)	80.00
52-week price range (US$)	77.79 - 50.05
Market cap(US$ m)	32,879
Enterprise value (US$ m)	36,505

Target price is for 12 months.

Research Analysts

John Roberts

Edlain Rodriguez

Matthew Skowronski

- **Failed ROG deal doesn't mean opportunities don't remain for DuPont.** ROG targeted 8-10% organic top-line growth from 2022-2025E, which could also be a reasonable target for DuPont's Electronics & Industrial segment (45% of 2023e sales). We review the opportunities highlighted by ROG, which we believe largely remain targets for DuPont even without the acquisition of ROG (which was terminated last November after failing to receive timely antitrust approval from China).
- **EVs, ADAS, Renewable Energy, Portable Electronics & Aerospace/Defense highlighted by ROG as 8%+ growth markets.** These are all high-growth opportunities for DuPont. While DuPont is not a significant direct competitor to ROG (which is why antitrust was approved outside of China), DuPont offers complementary materials for these applications. And DuPont is a leading competitor in electronic applications not served by Rogers, primarily semiconductors related.
- **DuPont remains a top pick for 2023.** Electronic materials are almost 40% of proforma DuPont sales, and we believe are coming to the end of a significant channel destocking cycle. Electronic materials also remain the highest secular growth area within specialty chemicals. Only ~14% of sales (i.e., Shelter Solutions) has significant cyclical end-consumer demand but should benefit most as price vs. raw materials normalize. Water & Safety Solution materials (~30% of sales) are relatively non-cyclical.
- **Valuation & Risks:** Our target price of $80 represent 18.5x our 2024 adjusted EPS estimate of $4.30. Risks to our Outperform rating include supply chain challenges, capital deployment, and litigation.

Full Report

Date of Production: 19-Apr-2023 21:37:47 UTC Date of Dissemination: 19-Apr-2023 21:39:22 UTC

Discover Financial Services [DFS.N]
1Q23 Miss On Provision; Better Growth, NCO Guidance; Buyback Auth Slightly Below CSe

OUTPERFORM

Rating	OUTPERFORM
Price (19-Apr-23, US$)	105.76
Target price (US$)	120.00
52-week price range (US$)	120.58 - 89.53
Market cap(US$ m)	27,430
Enterprise value (US$ m)	27,430

Target price is for 12 months.

Research Analysts

Moshe Orenbuch

Hoang Nguyen

- **DFS reported 1Q EPS of $3.58, (including a $18 mil net equity investment loss $0.05 per share), below CSe of $4.01 and consensus of $3.92.** The miss was due to higher-than-expected provision ($0.41 impact), all in reserve build (partly due to better growth) as losses were slightly lower than expected. Opex was also higher than expected ($0.08 impact). These were partly offset by higher revenue, including higher NII ($0.06 benefit) as a result of better loan growth (particularly personal loans), as NIM was in line. DFS raised loan growth guidance and slightly lowered charge-off guidance (DFS lowered its initial 2022 loss guidance several times), though new share repurchase authorization implies modestly lower buyback than CSe (~10% of market cap). On the call tomorrow, investors will likely focus on the trajectory of credit loss in 2023, growth expectations and deposit pricing trends. Overall, we view the quarter as **slightly positive.**
- **Positives. 1)** Revenue of $3.75 Bn came in better than CSe of $3.72 Bn, primarily due to higher NII and net discount revenue, as a result of stronger loan growth and sales volume (1 ppt above CSe). Personal loan growth was particularly strong. **2)** Improved guidance for loan growth and charge-off.
- **Negatives. 1)** Provision of $1.1 Bn was higher than CSe of $962 mil, due to higher reserve build (partly due to better growth), though losses were1% below CSe. **2)** Opex of $1.38 Bn came in higher than CSe of $1.35 Bn. **3)** DFS' board approved a new $2.7 Bn share repurchase program, spanning five quarters through 2Q24 and replacing the prior program. This is lower than CSe as we had expected DFS to compensate for the buyback suspension last year. That said, 1Q buyback was $200 mil higher than CSe.
- **Guidance. 1)** 2023 loan growth to be low to mid-teens (old: low double digits). **2)** 2023 NIM to be modestly higher y/y. **3)** 2023 opex to be up less than 10% y/y. **4)** 2023 loss rate to be 3.5-3.8% (old: 3.5-3.9%). **5)** New $2.7 Bn share repurchase program, spanning five quarters through 2Q24 and replacing the prior program.

Full Report

Date of Production: 19-Apr-2023 23:34:25 UTC Date of Dissemination: 19-Apr-2023 23:37:19 UTC

F5 Networks, Inc. [FFIV.OQ]
F2Q23 Earnings Results — First Blush

NEUTRAL

Rating	NEUTRAL
Price (19-Apr-23, US$)	137.05
Target price (US$)	166.00
52-week price range (US$)	204.57 - 134.25
Market cap(US$ m)	7,548
Enterprise value (US$ m)	6,703

Target price is for 12 months.

Research Analysts

Sami Badri

George Engroff

Ryan Cui, CFA

Radi Sultan, CFA

Andy Kellam

Conference call today at 5:00PM EST at (877) 407-0312 (US & Canada).

F2Q23 Results Summary**: Prepared comments for the balance of FY23 directionally negative (in-line with our FFIV Preview). For F2Q, beat for EPS, primarily driven by better-than-expected growth in Services and higher Operating Margins. F3Q23 guidance was well below CS/Street expectations. Full year also revised down. Awaiting more color on the call.**

Revenues: $703.2M (+10.9% y/y) **ABOVE** CS/Street estimates of $700.6M (+10.5% y/y) / $698.9M (+10.2% y/y)

Products: $340.6M (+14.5% y/y) **BELOW** CS/Street estimate of $348.7M (+17.2% y/y) / $343.3M (+15.4% y/y)

Services: $362.6M (+7.7% y/y) **ABOVE** CS/Street estimate of $351.9M (+4.5% y/y) / $355.7M (+5.6% y/y)

Gross Profit (Non-GAAP): $565.3M (80.4% margin) **ABOVE** CS/Street estimate of $560.9M (80.1% margin) / $561.9M (80.4% margin)

Operating Profit (Non-GAAP): $191.2M (27.2% margin) **ABOVE (Margin ABOVE)** CS/Street estimate of $189.6M (27.1% margin) / $185.4M (26.5% margin)

Taxes: $40.3M **ABOVE** CS estimate of $39.4M

EPS (Non-GAAP): $2.53 **WELL ABOVE** CS/Street estimate of $2.43/$2.42

Diluted Shares Outstanding: 60.691M **BELOW** CS estimate of 60.895M

F3Q23 Guidance Summary**:**

1. **Revenues:** $690-710M (+3.8% y/y mid-point) **WELL BELOW** with CS/Street estimate of $760.0M (+12.7% y/y) / $747.0M (+10.8% y/y)
2. **EPS (Non-GAAP):** $2.78-$2.90 **WELL BELOW** CS/Street estimate of $3.17/$3.05

FY23 Guidance Revised Down.

"…we now expect low-to-mid single-digit revenue growth [versus 9-11% prior] in fiscal year 2023 with non-GAAP operating margins of approximately 30% and non-GAAP earnings growth of 7% to 11%,"

From the Press Release:

"We delivered 11% revenue growth in our second quarter as a result of stronger than expected systems shipments and strong global services performance," said François Locoh-Donou, F5's President and CEO. "While customer spending remains pressured by macro-economic uncertainty near term, we are differentiated in our ability to help customers tackle the significant challenges ahead, including simplifying their hybrid and multi cloud application environments."

"Given the persistent macro uncertainty and its impact on customer spending, we now expect low-to-mid single-digit revenue growth in fiscal year 2023 with non-GAAP operating margins of approximately 30% and non-GAAP earnings growth of 7% to 11%," continued Locoh-Donou."

Summary Charts:

Note: Forward estimates have not been updated below.

Full Report

Date of Production: 19-Apr-2023 21:20:50 UTC Date of Dissemination: 19-Apr-2023 21:21:47 UTC

CREDIT SUISSE

INDUSTRY UPDATES:

Health Care Services | Monthly

20 April 2023

CS Hospital Volume Tracker

April Survey: March Inpt Vols Up a Strong 2.4% Y/Y, Outpt Up a Solid 2.6%; Capital Spending in 2023 Discussed

Research Analysts

A.J. Rice

Jonathan Yong

Enjia Cao

Carlos Penikis, CFA

Anastasia Parafestas

- **Inpatient Admissions Up 2.4% in March, Outpatient Visits Up 2.6%:** The Credit Suisse monthly hospital survey (respondents representing 84 hospitals across 31 states) suggests that unadjusted March inpatient vols were up a strong 2.4% Y/Y (vs. up 0.9% in February and 0.3% in January). Last year, our survey found that March 2022 inpatient vols increased 1.1% Y/Y. March Commercial admits were up 1.5% Y/Y, after increasing 1.5% in February and flat in January. Managed Medicare (MA) increased 1.3% Y/Y after an increase of 3.3% in February and an increase of 2.2% in January. Volumes varied across geographies, with inpatient admits increasing by 1.2% in the Northeast, up 5.1% in the Southeast, up 0.0% in the West and up 2.0% in the Central region.

- **Other Volume Metrics and Payer Mix:** Metrics in our survey this month were steady with most categories trending in low-single digit growth. Outpatient vols grew a solid 2.6% Y/Y; Inpatient surgeries were up 1.0% Y/Y after a 0.8% increase in February; outpatient surgeries increased 3.7% (up 3.3% in February); and ER visits were up 2.9% after a 3.3% increase in February. Medicaid admits increased 2.6% (up 0.3% in February). Self-pay admits were down 2.2% (down 1.8% in February), while Medicare admits were up 2.6% (up 1.9% in February). Finally, births were up 0.7% Y/Y in March (down 1.4% Y/Y in February).

- **Capital Spending Expectations Discussed:** This month, we asked respondents a series of questions to better understand the expectation of hospital operators for capital spending over the next twelve months. **(1)** We first asked respondents how they expect capital spending for their health system to trend over the next 12 months compared to the last year. Results were evenly split between increasing, decreasing, and staying the same. Approximately 34% of respondents expect relatively flat capital expenditures. Roughly 33% say they expect capital spending to be higher in the year ahead. The rest expect lower capital spending. (**2**) We next asked respondents if their health system is likely to evaluate joint-venturing or divesting key services with a third party. Roughly 25% of respondents would evaluate JV/divesting their inpatient behavioral health. 12% of respondents said ticked yes for Inpatient Rehab. 6% of respondents checked yes for Clinical Lab Services, and 28% of respondents said yes to Other Services. Other services include outpatient surgery, pharmacy, and GI center. (**3**) We finally asked respondents if they expect spending on imaging, technology, surgical capacity, ER capacity, and other services lines to increase in the next year. 67% of respondents expect technology spending to increase, 50% expect ER capacity spending to increase. 8.5% of respondents expect imaging spending to decrease, the largest of the categories. Mentions in other service lines include outpatient facilities, Cardiology, behavioral health, Robotics, Oncology, Primary care space capacity, radiation therapy, med surg, CT MRI.

Full Report

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Consumer Staples Merchandise Retail | Conference Call

19 April 2023

An Expert Discussion on the State of the Food Retail Industry with Roger Davidson

Guest Speaker: Roger Davidson, President, Oakton Advisory Group

Research Analysts

Karen Short

Full Report

Date of Production: 19-Apr-2023 20:14:28 UTC Date of Dissemination: 19-Apr-2023 20:15:11 UTC

Specialized Finance | Sector Review

19 April 2023

U.S. Networks
1Q U.S. Credit & Debit Accelerated Y/Y; Debit Below & Credit Above Seasonality

Research Analysts

Moshe Orenbuch

Timothy Chiodo, CFA

Hoang Nguyen

Nik Cremo

- **U.S. credit card spending accelerated on y/y basis, likely due to Omicron last year.** Y/y growth in credit card spending at BAC, C, JPM, USB, and WFC accelerated in 1Q23. Combined credit volume grew 10.5% y/y in 1Q vs 9.8% y/y growth in 4Q22. Spending growth has likely decelerated throughout 1Q due to the impact of Omicron at the beginning of last year. We note that credit card spending has generally remained resilient, though payment rate has continued to decline, while revolve rate is ticking up. JPM and WFC are showing the fastest growth among the issuers at +12.6% and +15.8% y/y in 1Q. JPM Merchant Services acquiring volume growth accelerated in 1Q23 on y/y basis, is now at 14.0% y/y growth. We note that for card lenders, declining payment rate is now a bigger contributor to balance growth than spending volume.
- **Debit growth also accelerated on y/y basis:** Debit growth was +4.8% y/y in 1Q following 4Q's +3.1%. BAC's y/y debit card volume growth accelerated to +5.8% in 1Q (from +4.7% in 4Q), JPM's y/y debit card volume growth accelerated to +5.2% in 1Q (from +3.4% in 4Q), Wells Fargo's y/y debit card growth accelerated to +2.0% in 1Q (from +1.3% in 4Q), and US Bancorp's y/y debit card volume growth accelerated to +11.2% in 1Q (from +1.7% in 4Q), all largely Visa banks. We note that overall household's excess liquidity through the pandemic has been drawn down, which likely has affected debit spend as consumers rationalized spending (e.g. WFC notes that spending started to soften in late 1Q). That said, employment continues to be strong, though moderating. We note that debit volumes were growing faster than credit volumes for a few years in the recovery after the GFC, though right now credit card has overtaken debit card in y/y growth as borrowing need is increasing (and spending trends are likely better among higher income consumers).
- We note that for the total debit and credit card volumes across the major issuers we track, debit volumes were -4.3% q/q in 1Q (vs. typical seasonality of -2.6% until 2019), while credit volumes were -6.3% q/q (vs. typical seasonality of -7.6% until 2019).
- Overall, we believe V will see U.S. payment volume sequentially down by 3% in 1Q from 4Q. This is based on V's volume disclosure through February, which saw U.S. payment volume up 13%/11% y/y in January and February. Assuming similar y/y growth deceleration in March would result in volume down by 3% sequentially. Meanwhile, MA's U.S. payment volume will also be likely down sequentially and by a slightly larger magnitude. Our current estimates are -3.0% q/q for V and -5.2% q/q for MA. We note that Visa's U.S. business has a higher proportion of debit and MasterCard has a higher proportion of credit volume.

Full Report

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